Financial Report

Content

Consolidated income statement

(SEK million)	Note	2017	2016[1]
Continuing operations			
Net sales	3, 4	17,537	14,999
Cost of goods and services		-10,971	-9,917
Gross income		**6,566**	**5,082**
Selling expenses		-1,639	-1,054
Administrative expenses		-3,706	-2,967
Other operating income	5	117	154
Other operating expenses	5	-83	-151
Share of earnings in associated companies and joint ventures	6	8	-3
Items affecting comparability	9	-340	–
Operating income	3, 4, 10, 11, 23, 25, 26, 28	**923**	**1,060**
Net interest	7	-24	-18
Other financial items	7	-40	-63
Income before tax		**859**	**980**
Tax expenses	8	-247	-236
Net income for the year, continuing operations		**612**	**744**
Discontinued operations			
Czech, the Baltics and Africa	29	748	219
CTC Media	29	–	-1,072
Net income for the year, discontinued operations[2]		**748**	**-853**
Total net income for the year		**1,360**	**-109**
Net income for the year, continuing operations, attributable to:			
Equity holders of the parent company		546	733
Non-controlling interest		66	12
Total net income for the year, continuing operations		**612**	**744**
Total net income for the year, attributable to:			
Equity holders of the parent company		1,250	-213
Non-controlling interest		110	104
Total net income for the year		**1,360**	**-109**
Continuing operations			
Basic earnings per share (SEK)	16	8.19	10.99
Diluted earnings per share (SEK)	16	8.13	10.96
Total operations			
Total basic earnings per share (SEK)	16	18.73	-3.19
Total diluted earnings per share (SEK)	16	18.61	-3.19
Number of shares			
Shares outstanding at the end of the period		66,725,249	66,663,816
Basic average number of shares outstanding	16	66,706,398	66,655,996
Diluted average number of shares outstanding	16	67,142,319	66,826,825

[1] The Czech Republic, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the income statement has been restated accordingly.

[2] Net income of SEK 44 million in Prima, Czech Republic, is attributable to the equity holders of the parent.

Consolidated statement of comprehensive income

(SEK million)	Note	2017	2016[1]
Net income for the year, continuing operations		612	744
Other comprehensive income			
Items that are or may be reclassified to profit or loss net of tax:			
Change in currency translation differences	17	36	111
Cash flow hedge	17	-121	32
Other comprehensive income, continuing operations		**-85**	**144**
Total comprehensive income, continuing operations		**527**	**888**
Net income for the year, discontinued operations	29	748	-853
Other comprehensive income			
Items that are or may be reclassified to profit or loss net of tax:			
Change in currency translation differences	17	-54	1,069
Total comprehensive income, discontinued operations		**693**	**216**
Total comprehensive income for the year		**1,221**	**1,104**
Attributable to:			
Equity holders of the parent company		1,098	990
Non-controlling interest		123	113
Total comprehensive income for the year		**1,221**	**1,104**

[1] The Czech Republic, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the statement of comprehensive income has been restated accordingly.

Consolidated balance sheet

(SEK million)	Note	31 Dec 2017	31 Dec 2016[1]
ASSETS			
Non-current assets			
Intangible assets	10		
Capitalised expenditure		500	198
Trademarks		1,385	1,067
Customer relations and other		636	397
Goodwill		6,363	4,584
Total intangible assets		**8,884**	**6,246**
Tangible assets	11		
Machinery		68	55
Equipment, tools and installations		204	199
Total tangible assets		**272**	**255**
Long-term financial assets			
Shares and participations in associated companies and joint ventures	6	75	611
Receivables from associated companies		10	6
Shares and participations in other companies		9	5
Other long-term receivables		141	158
Total long-term financial assets		**236**	**780**
Deferred tax asset	8	272	150
Total non-current assets		**9,664**	**7,431**
Current assets			
Inventories			
Finished goods and merchandise		89	66
Program rights		2,072	1,593
Advances to suppliers		22	21
Total inventories		**2,183**	**1,680**
Current receivables			
Accounts receivables	14	1,969	1,677
Accounts receivables, associated companies		2	0
Tax receivables		63	118
Other current receivables, interest-bearing		2	9
Other current receivables, non interest-bearing		171	429
Prepaid programming expense		2,509	2,122
Prepaid expense and accrued income		1,313	1,007
Assets held for sale[2]		16	2,559
Total current receivables		**6,045**	**7,922**
Cash and cash equivalents		1,394	666
Total current assets		**9,622**	**10,268**
Total assets		**19,285**	**17,699**

[1] The Czech Republic, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the balance sheet has been restated accordingly.

[2] Relates to the divestment of the Czech Republic, the Baltics and African operations (excluding Trace).

(SEK million)	Note	31 Dec 2017	31 Dec 2016[1]
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company	17		
Share capital		338	346
Other paid-in capital		189	253
Reserves		-345	-301
Retained earnings including net income for the year		4,997	4,512
Total equity attributable to equity holders of the parent company		**5,179**	**4,809**
Non-controlling interest			
Non-controlling interest		1,393	207
Total equity		**6,572**	**5,016**
Non-current liabilities	21		
Interest-bearing			
Bond loan		500	1,500
Other interest-bearing liabilities		95	58
Total non-current interest-bearing liabilities		**595**	**1,558**
Non-interest-bearing			
Non-interest bearing liabilities		48	23
Deferred tax liability	8	815	582
Provisions	18	359	336
Liabilities at fair value	21	829	1,208
Total non-current non-interest-bearing liabilities		**2,052**	**2,150**
Total non-current liabilities		**2,648**	**3,707**
Current liabilities	21		
Interest-bearing			
Liabilities to financial institutions		2,625	1,435
Other interest-bearing liabilities		3	1
Total current interest-bearing liabilities		**2,628**	**1,436**
Non-interest-bearing			
Advances from customers		564	462
Accounts payable	21	1,791	1,993
Tax liabilities		207	236
Provisions	18	158	122
Liabilities at fair value	21	176	134
Other liabilities		656	431
Accrued programming expense		2,069	1,901
Accrued expense and deferred income		1,800	1,514
Liabilities related to assets held for sales[2]		18	746
Total current non-interest-bearing liabilities		**7,438**	**7,540**
Total current liabilities		**10,066**	**8,976**
Total liabilities		**12,713**	**12,683**
Total equity and liabilities		**19,285**	**17,699**

[1] The Czech Republic, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the balance sheet has been restated accordingly.

[2] Relates to the divestment of the Czech Republic, the Baltics and African operations (excluding Trace).

For information about pledged assets and contingent liabilities, see note 20.

Consolidated statement of changes in equity

	Equity attributable to the equity holders of the parent company									
(SEK million) Note 17	**Share capital**	**Paid-in capital**	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Revaluation reserve**	**Retained earnings incl. net income for the year**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of 1 January 2016	**338**	**1,797**	**-1,461**	**78**	**0**	**-12**	**3,816**	**4,556**	**212**	**4,768**
Net income for the year							-213	**-213**	104	**-109**
Other comprehensive income			1,171	32				**1,204**	9	**1,212**
Total comprehensive income for the year 2016			**1,171**	**32**	**0**	**0**	**-213**	**991**	**113**	**1,104**
Dividends to shareholders (SEK 11.50 per share)							-767	**-767**		**-767**
Dividends to shareholders with non-controlling interests								**–**	-120	**-120**
Change in non-controlling interest								**–**	2	**2**
Effect of share-based programmes							29	**29**		**29**
Balance as of 31 December 2016	**338**	**1,797**	**-289**	**110**	**0**	**-12**	**2,865**	**4,809**	**207**	**5,016**
Net income for the year							1,250	**1,250**	110	**1,360**
Other comprehensive income			-31	-121				**-152**	13	**-139**
Total comprehensive income for the year 2017			**-31**	**-121**	**0**	**0**	**1,250**	**1,098**	**123**	**1,221**
Dividends to shareholders (SEK 12.00 per share)							-800	**-800**		**-800**
Dividends to shareholders with non-controlling interests								**–**	-4	**-4**
Change in non-controlling interest								**–**	1,067	**1,067**
Effect of share-based programmes							73	**73**		**73**
Balance as of 31 December 2017	**338**	**1,797**	**-320**	**-11**	**0**	**-12**	**3,387**	**5,179**	**1,393**	**6,572**

Consolidated statement of cash flow

(SEK million)	Note	2017	2016[1]
Cash flow from operations			
Net income for the year		612	744
Adjustments to reconcile net income/loss to net cash provided by operations	22	699	-70
Cash flow from operations, continuing operations		**1,311**	**674**
Changes in working capital			
Increase (-)/decrease (+) net programme inventories		-717	-384
Increase (-)/decrease (+) other current receivables		-213	-242
Increase (+)/decrease (-) accounts payable		-228	200
Increase (+)/decrease (-) other current liabilities		433	223
Total change in working capital		**-725**	**-204**
Net cash flow from operations, continuing operations		**586**	**470**
Investing activities			
Investment in other non-current assets		-330	-308
Acquisitions of subsidiaries and associates	28	-1,250	-606
Divestments of subsidiaries and associates	29	2,013	102
Other cash flow from investing activities		32	17
Cash flow from investing activities, continuing operations		**465**	**-796**
Financing activities			
Change in short-term borrowings		190	-57
New long-term borrowings		37	485
Decrease of other long-term receivables		228	-42
Dividends to shareholders		-800	-767
Dividends to shareholders with non-controlling interest		-4	-28
Cash flow from financing activities, continuing operations		**-349**	**-410**
Total cash flow, continuing operations		**703**	**-736**
Cash flow, discontinued operations		**42**	**1,160**
Cash flow from the year		**745**	**425**
Cash and cash equivalents at beginning of year		**666**	**410**
Translation differences in cash and cash equivalents		2	10
Change in cash and cash equivalents reclassified to assets held for sale		-19	-179
Cash and cash equivalents at end of year		**1,394**	**666**

[1] The Czech Republic, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the statement of cash flow has been restated accordingly.

Parent company income statement

(SEK million)	Note	2017	2016
Net sales		49	45
Gross income		**49**	**45**
Administrative expenses		-361	-275
Operating loss	25, 26	**-312**	**-231**
Interest income and other financial income	7	244	272
Interest expense and other financial costs	7	-44	-52
Results from shares in subsidiaries	7	63	15
Income before tax and appropriations		**-49**	**4**
Group contribution		407	162
Untaxed reserves, tax allocation reserve		-90	–
Income before tax		**268**	**166**
Tax expenses	8	-59	-27
Net income for the year		**209**	**139**

Parent company statement of comprehensive income

(SEK million)	2017	2016
Net income for the year	209	139
Other comprehensive income	–	–
Total comprehensive income for the year	**209**	**139**

Parent company balance sheet

(SEK million)	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	10		
Capitalised expenditure		0	1
Total intangible assets		**0**	**1**
Tangible assets	11		
Equipment, tools and installations		0	0
Total tangible assets		**0**	**0**
Long-term financial assets			
Shares and participations in Group companies	12	6,339	6,339
Receivable from Group companies	13	9,941	10,016
Shares and participations in other companies		1	1
Other long-term receivables		35	32
Total long-term financial assets		**16,316**	**16,389**
Total non-current assets		**16,316**	**16,390**
Current assets			
Current receivables			
Receivable from Group companies		781	478
Tax receivables		13	46
Other receivables		75	172
Prepaid expense and accrued income	15	7	12
Total current receivables		**877**	**707**
Cash and cash equivalents		844	606
Total current assets		**1,721**	**1,313**
Total assets		**18,037**	**17,703**

Cont. Parent company balance sheet

(SEK million)	Note	31 Dec 2017	31 Dec 2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Restricted equity			
Share capital (67,647,124 shares)		338	338
Total restricted equity		**338**	**338**
Non-restricted equity			
Premium reserve		267	267
Fair value reserve		0	0
Retained earnings		4,885	5,507
Net income for the year		209	139
Total non-restricted equity		**5,361**	**5,914**
Total shareholders´ equity		**5,699**	**6,252**
Untaxed reserves, tax allocation reserve		90	–
Non-current liabilities			
Interest-bearing	21		
Bond loan		500	1,500
Total non-current interest-bearing liabilities		**500**	**1,500**
Non-interest-bearing			
Liabilities to Group companies		35	32
Provisions	18	13	2
Total non-current non-interest-bearing liabilities		**48**	**34**
Total non-current liabilities		**548**	**1,534**
Current liabilities			
Interest-bearing			
Liabilities to Group companies		8,602	8,005
Liabilities to financial institutions	21	2,625	1,435
Total current interest-bearing liabilities		**11,227**	**9,440**
Non-interest-bearing			
Accounts payable		12	4
Liabilities to Group companies		299	416
Other liabilities		85	9
Accrued expense and deferred income	19	77	48
Total current non-interest-bearing liabilities		**473**	**478**
Total current liabilities		**11,700**	**9,917**
Total liabilities		**12,338**	**11,451**
Total shareholders´ equity and liabilities		**18,037**	**17,703**

For information about pledged assets and contingent liabilities, see note 20.

Parent company statement of changes in equity

(SEK million) Note 17	Restricted equity	Non-restricted equity			
	Share capital	**Premium reserve**	**Fair value reserve**	**Retained earnings incl. net income for the year**	**Total**
Balance as of 1 January 2016	**338**	**267**	**0**	**6,262**	**6,868**
Net income for the year				139	**139**
Other comprehensive income					**–**
Total comprehensive income for the year 2016			**0**	**139**	**139**
Dividends to shareholders				-767	**-767**
Effect of share-based programmes				12	**12**
Balance as of 31 December 2016	**338**	**267**	**0**	**5,646**	**6,252**
Net income for the year				209	**209**
Other comprehensive income					**–**
Total comprehensive income for the year 2017			**0**	**209**	**209**
Dividends to shareholders				-800	**-800**
Effect of share-based programmes				38	**38**
Balance as of 31 December 2017	**338**	**267**	**0**	**5,093**	**5,699**

Parent company cash flow statement

(SEK million)	Note	2017	2016
Cash flow from operations	22		
Net income for the year		209	139
Adjustments to reconcile net income/loss to net cash provided by operations:			
Depreciation and write-downs		1	2
Appropriations, group contribution and untaxed reserves		-317	-162
Unrealised change in LTIP schemes value		38	12
Change in provisions		11	-18
Unrealised exchange difference		-2	4
Total adjustments to reconcile net income/loss to net cash provided by operations		**-268**	**-163**
Cash flow from operations		**-60**	**-24**
Changes in working capital			
Increase (-)/decrease (+) short-term receivables		182	32
Increase (+)/decrease (-) accounts payable		11	-5
Increase (+)/decrease (-) other liabilities		52	-86
Total changes in working capital		**245**	**-59**
Net cash flow from operations		**186**	**-82**
Investing activities			
Investments in non-current assets		0	-1
Proceed from liquidation of subsidiary		0	2
Cash flow from investing activities		**0**	**1**
Financing activities			
Receivables/liabilities from Group companies		662	898
Dividends to shareholders		-800	-767
New long-term borrowings		–	500
Change in short-term borrowings		190	-60
Cash flow from financing activities		**52**	**571**
Cash flow from the year		**238**	**490**
Cash and cash equivalents at beginning of year		**606**	**115**
Cash and cash equivalents at end of year		**844**	**606**

Note 1 Accounting and valuation principles

Modern Times Group MTG AB (MTG) is a company domiciled in Sweden. The Company's registered office is located at Skeppsbron 18, P.O. Box 2094, SE-103 13 Stockholm, Sweden. The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries and their share of participation in joint ventures and associated companies.

The financial statements were authorised for issue by the Board of Directors on 23 March 2018. The consolidated income statement and statement of financial position, and the income statement and the balance sheet of the parent company will be presented for adoption by the Annual General Meeting on 22 May 2018.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and its interpretations provided by the IFRS Interpretations Committee as endorsed by the European Commission. Recommendation RFR 1 on Supplementary Accounting Rules for Groups as issued by the Swedish Financial Reporting Board has also been applied in the preparation of the Annual report.

The consolidated accounts have been prepared based on the acquisition values except that the following assets and liabilities are stated at their fair value: derivative financial instruments, contingent considerations and financial instruments classified as available-for-sale. The changes in the value of available-for-sale instruments are reported in other comprehensive income until derecognised, with the exception of assets with a significant long-term decrease in value where the value change is reported in the income statement.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated below. For information on accounting for certain line items, see each note.

Change in accounting principles and new accounting standards

The Group's consolidated accounts have been prepared according to the same accounting policies and calculation methods as were applied in the preparation of the 2016 Annual Report.

New and amended Accounting standards and interpretations after 2017

The Group has not made any early adoptions of new or changed Accounting standards and interpretations effective after 31 December 2017.

The following new standards have been issued and will be applied for the financial year 2018:

IFRS 9 Financial instruments

This standard addresses the classification, measurement, recognition, impairment and derecognition of financial instruments. It also addresses general hedge accounting. The standard will not have any material impact on the Group's financial position or result. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The standard replaces IAS 11 Construction Contracts and IAS 18 Revenue and establishes a new framework for determining when and how much revenue to recognise. The standard introduces a five-step model to be applied to all contracts with customers in order to establish the revenue recognition. The Group has assessed IFRS 15's impact on the various business models and come to the conclusion that the standard has no significant effects on the timing and the amount of revenue recognised in the Group's consolidated accounts. The disclosures related to revenue recognition in the Group's annual report will, however, increase because of the new standard. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 Leases (effective from financial year 2019)

New accounting standard for leases. For the lessee the classification according to IAS 17 in operating and finance lease is replaced by a single lease accounting model. All leases should be recognized on-balance sheet as a right-of-use asset and lease liability. Leases of low-value assets and items as well as leases of 12 months or less are exempt from the requirements. Depreciation of lease assets must be separately recognised from interest on lease liabilities in the income statement. The Group is yet to assess IFRS 16's full impact, however, there is a number of operating leases for e.g. offices which will result in an increase of the balance sheet and a certain shift from operating expenses to interest expenses in the Group's income statement. See note 23 for more information on operational leases in the Group. The standard is effective for annual periods beginning on or after 1 January 2019.

Other new and changed Accounting standards and interpretations are not judged to have any material effect on the Group's financial reports.

Consolidated accounts

The consolidated accounts include the Parent company, all subsidiaries and the share of participation in joint ventures and associated companies.

Subsidiaries

Subsidiaries are companies in which the Group exercises control, meaning that the Group has power over the subsidiary and has exposure or rights to its variable returns. The Group must also have the ability to use the power to affect the return from the subsidiary. For all companies in which the Group holds more than 50% of the votes the criteria's of control are fulfilled and the companies are consolidated as subsidiaries.

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, the acquired assets and assumed liabilities (net identifiable assets) are measured at fair value. The difference between the acquisition value of shares in a subsidiary and identifiable assets and liabilities measured at fair values at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of identifiable net assets acquired is recognised in the profit and loss in the period of acquisition. Acquisition related costs are expensed as incurred. Results for companies acquired during the year are included in the consolidated statement of comprehensive income from the date of acquisition.

Non-controlling interest

In subsidiaries not wholly owned, the share of equity owned by external shareholders is recorded as non-controlling interest. There are two alternatives for the recognition of non-controlling interests. One alternative is to recognise the non-controlling interest at its share of fair value of the acquired company; another alternative is to recognise the non-controlling interests at its share of the fair value of the acquired net assets. The former method (the full goodwill methods) leads to a higher value of non-controlling interest and goodwill than the later method (the partial goodwill method). The choice of method is made for each acquisition separately.

Associated companies

Associated companies are reported based on the equity method. An associated company is a company in which the Group exercises significant influence. Normally, this means companies in which the Group holds voting rights of at least 20% and no more than 50%.

Joint ventures

Joint ventures are arrangements in which two or more parties have joint control and have rights to the net assets of the arrangement. Joint ventures are recognised according to the equity method (see Associated companies).

Discontinued operations/Assets held for sale

Discontinued operations refer to companies that have been disposed of or have been classified as held for sale and the companies represent a separate major line of business or geographical area of operations. The group usually classifies a company as an Assets held for sale when there is signed agreement to divest the company. Result and cash flow from discontinued operations are presented separate from result and cash flow from continuing operations.

Functional currency and reporting currency

The functional currency of the parent company is the Swedish krona (SEK). This is also the reporting currency for the Group and the parent company.

Financial statements of foreign operations

The balance sheets of the Group's foreign subsidiaries are translated into Swedish krona (SEK). The translation is based on the exchange rates ruling at the balance sheet date, while the income statements are translated using an average rate for the period. The resulting translation differences are charged in other comprehensive income and accumulated in the translation reserve in equity. The accumulated translation differences are reclassified to the income statement when the foreign operation is divested.

Parent company

The Parent company has prepared the Annual Report according to the Swedish Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities. RFR 2 involves application of all IFRSs and interpretations endorsed by the European Commission, except where the possibility to apply IFRS is restricted by the Swedish Company Act and due to tax rules. Holdings in subsidiaries are recognised in the Parent Company according to the purchase method which means that the transaction costs are included in the recognised value of shares in subsidiaries. The Group recognises these costs in the income statement immediately when occurred.

Group contributions

Group contributions received and paid are recognised as appropriations in the income statement.

Untaxed reserves

Untaxed reserves in the parent company comprise a tax allocation reserve. The reserve makes it possible to defer tax, and hence even out the tax cost between years.

Shareholders' contribution

Shareholders' contribution paid is recognised as an increase in shares in subsidiaries. When the contribution is given to cover losses made, an impairment test is made. Impairment is recognised in the income statement.

Note 2 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the Board of Directors and the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates are reviewed by the Audit Committee.

Key sources of estimation uncertainty

Note 10 and 28 contain information of the assumptions and the risk factors relating to goodwill impairment. Litigations and provisions made are reported in note 18.

Goodwill and other intangible assets

Intangible assets, except goodwill and intangible assets with indefinite useful lives, are amortised and depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue.

Goodwill and intangible assets with indefinite useful lives are subject to impairment tests yearly or when triggered by events. The impairment review requires management to determine the fair value of the cash generating units on the basis of cash flow projections and internal forecasts and business plans. For further information, see note 10 Intangible assets.

Valuation of liabilities at fair value

The calculation of fair values of options, to acquire non-controlling interests of acquired subsidiaries, and contingent considerations are based on terms defined in agreements set up in connection with the acquisitions. The valuations are usually based on projections and forecasts of future revenues and operating margin. The outcome of revenues and operating margin could deviate from projections and forecast, and, as a result of this, affect the valuation and the eventual consideration for non-controlling interests. This deviation would impact the income for the period and the financial position.

Depreciation and amortisation of beneficial rights and programme rights inventory

Depreciation and amortisation of beneficial rights and programme rights inventory are expensed in accordance with the estimated broadcasting period. A higher proportion of the costs are expensed in the beginning of the broadcasting period than the following years. The estimated broadcasting period could change, and, as a result of this, affect the income for the period and the financial position. For further information, see note 3 Revenue and cost accounting and note 10 Intangible assets.

Note 2, continued

Provisions and contingent liabilities

A provision is recognised when a present obligation exist as a result of a past event, it is probable that economic resources will be transferred, and reliable estimates can be made of the amount of the obligation. In such a case, a provision is calculated and recognised in the balance sheet. A contingent liability will be disclosed when a possible obligation has arisen, but its existence has to be confirmed by future events outside the Group's control, or when it is not possible to calculate the amount. Realisation of any contingent liability which is not disclosed or for which no amount is not currently recognised could have a material impact on the Group's financial position.

The Group regularly reviews significant outstanding litigations in order to assess the need for provisions. Among the factors considered, are the nature of the litigation, claims, legal processes and potential level of damages, the opinions and views of the legal counsellors, and the management's intentions to respond to the litigations or claims. To the extent the estimates and judgments do not reflect the actual outcome; this could materially affect the income for the period and the financial position. For further information, see note 18 Provisions.

Note 3 Revenue and cost accounting

Revenue recognition

The Group's revenues are mainly derived from selling of advertising air time, subscriptions, content production and various services. To some extent revenue is also derived from sale of goods. Revenue is recognised at the time the service is performed or when the risk and reward of the goods have been transferred. Accordingly, the Group reports revenue from:

- TV and radio advertising at the time of broadcast
- Subscription fees for pay-TV over the subscription period
- Cable revenues as the services are provided to the cable wholesaler based on number of subscribers
- Sale of goods in accordance with the terms of sales
- Sale of services, such as distribution rights and events, when the services are provided
- TV productions where recognition is based on the percentage of completion for each project in the same relation as incurred expenses are related to the total cost for the entire project
- Sale of In-Apps related to games when the service is performed
- Interest is recognised using the effective interest method
- Dividend is recognised when right to receive payment has been established

Barter transactions

Barter entails the exchange of air time on TV or radio for other goods or services. Barter transactions are reported at the fair value of the goods or services. The fair value is determined by agreements made with other customers for the same type of goods or services. Revenues from barter transactions are recognised when the commercial is broadcasted. Expenses are recognised when the goods or service is consumed.

Inventories

A significant portion of the amount reported as inventory by the Group refers to the TV channels' catalogue of programme rights. Programme rights are reported as inventory when the license period has begun, the programme itself is available for its first broadcast, the cost of the programme is known, and the programme content has been approved by the TV channel. Programme rights invoiced but where the license period has not started and the programme cannot be reported as inventory is reported as prepaid expenses. Future payment commitments in respect of contractual programme rights that have not yet been reported as inventory or prepaid expenses are reported as other commitments, note 23. Programme rights are normally acquired for a specific number of runs, which can be played out during a determined license period in certain territories. The programme rights are expensed per run according to how the program is expected to be broadcasted during the license period. The recognition of sports rights starts when the contractual period starts or when an advance payment is made. Sports rights are allocated over the seasonal year and on a yearly basis.

Other inventories are valued at the acquisition cost or net realisable value, whichever is lower. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Prepaid subscriber acquisition expenses

Prepaid expenses include incremental direct variable subscriber acquisition costs incurred to obtain new customers in fixed-term contracts, i.e. the contract includes fixed revenue over the subscription period. The costs are recognised as prepaid expenses as it is probable that the future economic benefit will flow to the company and the value can be measured with reliability. The costs are allocated over the contract period. In case the costs exceeds the contracted revenues, the cost are expensed when incurred.

External sales by type of product or service

(SEK million)	2017	2016
Advertising revenue	4,318	4,016
Subscription revenue	8,732	8,026
Business-to-business/Consumer revenue	4,487	2,957
Total	**17,537**	**14,999**

The Group has a large number of customers and no single customer amounts to a material share of revenues.

Nature of expenses

A function based income statement is presented as part of the financial statements of the Group. The table below presents how the operational costs are classified based on the nature of expense.

Group (SEK million)	2017	2016
Net sales	17,537	14,999
Other operating income	117	154
Cost of programmes and goods	-9,220	-8,035
Distribution costs	-3,615	-2,109
Salaries, remuneration, and social security expenses	-3,170	-2,482
Depreciation and amortisation expenses	-320	-207
Asset impairment charges	-50	-98
Other expenses	-24	-1,158
Share of earnings in associated companies and joint ventures	8	-3
Items affecting comparability	-340	–
Operating Income	**923**	**1,060**

Note 4 Business segments

MTG's financial reporting structure is divided into the following segments:

Nordic Entertainment
Nordic Entertainment includes both pay-TV, free-TV and radio services for the Nordic region. Free-TV comprises TV channels primarily financed by advertising in Sweden, Norway and Denmark, as well as Viafree. Pay-TV markets and sells Viasat's premium pay-TV packages on the Viasat DTH satellite platform, the Viaplay online platform and on third party IPTV and cable networks. Viasat also distributes pay-TV channels via third party pay-TV networks. The segment's radio operations comprise the leading national commercial networks in Sweden and Norway.

International Entertainment
International Entertainment comprises MTG's businesses in Bulgaria as well as Trace, an Afro-urban entertainment business. MTG's businesses in Bulgaria consists of commercial free-TV channels. MTG signed agreements in January 2018 to divest Trace and in February 2018 to divest the businesses in Bulgaria. The Czech, Baltic and African businesses previously reported within the segment was divested during 2017.

MTG Studios
MTG Studios comprise the Group's content production and distribution businesses in Scandinavia and Europe. The segment comprises a number of leading creators, producers and distributors of television shows, commercials, events and branded content. These include the Nice Entertainment Group with content production and distribution companies.

MTGx
MTGx comprise the Group's global digital businesses which currently include three verticals; esports, online gaming and digital video networks. The segment comprises Turtle Entertainment, Zoomin.TV, Splay, DreamHack, InnoGames, Engage Sports Media and Kongregate, as well as a number of start-ups.

	Net sales	
(SEK million)	2017	2016
Nordic Entertainment	11,961	11,139
of which Free-TV & Radio	*5,094*	*4,866*
of which Pay-TV	*6,867*	*6,272*
International Entertainment	1,189	1,102
MTG Studios	1,832	1,777
MTGx	2,964	1,326
of which esports	*1,370*	*1,012*
of which online gaming	*1,234*	–
of which digital video content	*360*	*314*
Central Operations	190	185
Eliminations	-599	-530
Total	**17,537**	**14,999**

	External sales		Internal sales		Operating income	
(SEK million)	2017	2016	2017	2016	2017	2016
Nordic Entertainment	11,845	10,986	116	153	1,574	1,370
International Entertainment	1,185	1,102	4	0	176	148
MTG Studios	1,559	1,597	273	179	68	81
MTGx	2,948	1,312	16	14	-170	-251
Central Operations	1	2	189	184	-384	-288
Total before items affecting comparability	**17,537**	**14,999**	**599**	**530**	**1,264**	**1,060**
Items affecting comparability	–	–	–	–	-340	–
Total	**17,537**	**14,999**	**599**	**530**	**923**	**1,060**

For a specification of Items affecting comparability, see note 9.

The business segments are responsible for the management of the operational assets and the performance is monitored at the business segment level. Financing is managed centrally in the Group. Consequently, liquid funds, interest-bearing receivables and liabilities are not allocated to the business segments.

Note 4, continued

(SEK million)	Assets 2017	Assets 2016	Liabilities and Equity 2017	Liabilities and Equity 2016	Capital Employed 2017	Capital Employed 2016
Nordic Entertainment	7,538	7,201	6,078	5,846	1,460	1,355
International Entertainment	1,325	1,380	455	381	870	999
MTG Studios	2,080	1,835	681	610	1,399	1,225
MTGx	6,893	4,241	1,040	469	5,853	3,772
Central Operations	1,229	695	2,420	2,532	-1,191	-1,837
Total	**19,065**	**15,351**	**10,674**	**9,837**	**8,392**	**5,514**
Total cash and interest-bearing assets	1,405	682				
Total borrowings			3,224	2,993		
Equity incl. non-controlling interest			6,572	5,016		
Eliminations	-1,202	-893	-1,202	-893		
Total continuing operations	**19,268**	**15,140**	**19,267**	**16,954**		
Assets held for sale	16	2,559	18	746		
Total	**19,285**	**17,699**	**19,285**	**17,699**	**8,392**	**5,514**

(SEK million)	Capital expenditure excluding investments in subsidiaries 2017	Capital expenditure excluding investments in subsidiaries 2016	Depreciation and amortisation 2017	Depreciation and amortisation 2016
Nordic Entertainment	114	154	115	104
International Entertainment	24	20	33	15
MTG Studios	16	15	32	27
MTGx	156	112	133	55
Central Operations	20	8	7	6
Total	**330**	**308**	**320**	**207**

The Group's business segments operate mainly in Europe and USA. Net sales and non-current assets are shown below by geographical area. Non-current assets constitute of intangible and tangible assets. Sales are shown per country from which the revenues are derived.

(SEK million)	Net sales 2017	Net sales 2016	Non-current assets 2017	Non-current assets 2016
Sweden	5,460	5,103	1,859	1,815
Denmark	3,907	3,702	146	140
Bulgaria	963	868	133	140
Norway	3,000	2,826	828	872
Germany	321	122	4,306	1,528
Netherlands	123	85	150	742
Finland	651	536	301	307
Rest of Europe	1,391	780	679	719
USA	1,203	684	722	204
Other regions	519	293	32	35
Total	**17,537**	**14,999**	**9,156**	**6,501**

Note 5 Other operating income and expenses

Group (SEK million)	2017	2016
Other operating income		
Gain from exchange rate differences	53	13
Gain from divested entities and revaluation of option liabilities	1	108
Other	63	33
Total	**117**	**154**
Other operating expenses		
Loss from exchange rate differences	-47	-13
Acquisition costs	-28	-17
Loss from divested entities	-2	-4
Amortisations and depreciations	-13	-10
Write-downs	-2	-94
Reversed provision	24	–
Other	-15	-13
Total	**-83**	**-151**

Note 6 Shares in associated companies and joint ventures

Group (SEK million)	2017	2016
Share of earnings	8	-3
Net income	**8**	**-3**

Associated companies and joint ventures are reported based on the equity method. The share of earnings is equal to the Group's share of net income in each associated company or joint venture after conversion into Swedish krona. The calculation of share in net income is based on the latest available accounts.

Summarised financial information for associated companies and joint ventures

Group (SEK million)	2017	2016
Net sales	725	406
Net income	48	0
Other comprehensive income	–	0
Non-current assets	53	255
Current assets	187	470
Total assets	**241**	**725**
Non-current liabilities	21	80
Current liabilities	110	387
Total liabilities	**131**	**466**

Shares and participations in associated companies and joint ventures

Group (SEK million)	Registered office	Number of shares	Share capital (%)	Voting rights (%)	Book value 31 Dec 2017	Book value 31 Dec 2016
InnoGames GmbH	Germany	10,323	21	21	–	554
Other associated companies and joint ventures					75	57
Total					**75**	**611**

On the 30 April 2017 the Group acquired 30% of the shares in InnoGames and thereby holds 51% of the shares. InnoGames is fully consolidated as from 1 May 2017.

Note 7 Financial items

Group (SEK million)	2017	2016
Interest income	2	3
Interest expenses on borrowings	-26	-21
Net interest	**-24**	**-18**
Net exchange rate differences	2	12
Borrowing costs (Credit and Arrangement Fees)	-21	-19
Interest expenses from discounting	-20	-53
Other	-1	-3
Other financial items	**-40**	**-63**
Net financial items	**-64**	**-81**

Parent company (SEK million)	2017	2016
Interest income from external parties	1	1
Interest income from subsidiaries	244	268
Net exchange rate differences	-2	4
Total interest income and other financial income	**244**	**272**
Interest expense to external parties	-18	-16
Interest expense to subsidiaries	-5	-17
Borrowing costs, included in the effective interest	-21	-19
Total interest expense and other financial costs	**-44**	**-52**
Dividends from subsidiaries	46	15
Gain from sale of intellectual properties	17	–
Results from shares in subsidiaries	**63**	**15**
Net financial items	**263**	**235**

The interest income and expenses on borrowings relate to financial assets and liabilities valued at amortised cost.

Note 8 Taxes

Accounting for corporate income tax

Tax expenses reported includes current Swedish and foreign corporate income taxes and deferred tax arising from temporary differences. Temporary differences arises when there are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. A deferred tax asset is reported corresponding to the tax value of loss carry forwards if it is judged likely that the loss carry forward will be used to taxable income in the foreseeable future. Net income for the year is charged with tax on taxable earnings for the year and with tax estimated for the change in temporary differences for the year as current tax and deferred tax expenses respectively in each Group company.

Distribution of tax expense

Group (SEK million)	2017	2016
Current tax		
Current tax expense	-310	-265
Adjustment for prior years	-8	-41
Total	**-318**	**-306**
Deferred tax		
Tax attributable to temporary differences	71	70
Total	**71**	**70**
Total tax expense in the income statement	**-247**	**-236**

Reconciliation of tax expense

Group (SEK million)	2017	%	2016	%
Tax/Tax rate in Sweden	-189	-22.0	-216	-22.0
Non-taxable income	35	4.1	21	2.1
Foreign tax rate differential	50	5.8	15	1.5
Effect of losses carry-forward not previously recognised	23	2.6	48	4.9
Non-deductible expenses	-64	-7.4	-36	-3.7
Impairment of goodwill and option liabilities	-72	-8.4	–	–
Losses where no deferred tax was recognised	-21	-2.4	-9	-0.9
Other permanent effects	-1	-0.1	-18	-1.8
Under/over provided in prior years	-8	-1.0	-41	-4.2
Effective tax/ tax rate	**-247**	**-28.8**	**-236**	**-24.0**

Group (SEK million)	31 Dec 2017	31 Dec 2016
Deferred tax asset attributable to:		
Equipment	6	6
Intangible assets	0	1
Provisions	12	11
Current receivables	11	1
Current liabilities	4	0
Financial assets	23	5
Tax value of tax losses carry forward recognised	215	126
Total	**272**	**150**

Group (SEK million)	31 Dec 2017	31 Dec 2016
Deferred tax liabilities attributable to:		
Intangible assets	632	395
Goodwill	147	147
Equipment	-1	-2
Provisions	19	2
Current liabilities	3	3
Financial assets	14	38
Total	**815**	**582**

Deferred tax net	**-543**	**-433**

The movements in temporary differences net

Group (SEK million)	2017 Opening balance 1 January	Deferred tax recognised in the P&L	Acquisition of subsidiary	Deferred tax recog-nised in OCI	Translation differences	Closing balance 31 December
Tax losses carry forward	126	79		7	3	215
Temporary differences in:						
Goodwill	-147	0			0	-147
Equipment	7	0		-1	0	7
Intangible assets	-394	-29	-202		-6	-631
Provisions	9	-16			0	-7
Current receivables	1	10			0	11
Current liabilities	-2	3			0	1
Financial assets	-32	24		17	0	9
Total	**-433**	**71**	**-202**	**23**	**-3**	**-543**

Group (SEK million)	2016 Opening balance 1 January	Deferred tax recognised in the P&L	Acquisition of subsidiary	Deferred tax recog-nised in OCI	Translation differences	Closing balance 31 December
Tax losses carry forward	47	74	0		4	126
Temporary differences in:						
Goodwill	-147	0			0	-147
Equipment	3	4			0	7
Intangible assets	-384	8	-1		-16	-394
Provisions	19	-12			1	9
Current receivables	1	0			0	1
Current liabilities	-4	3			-1	-2
Financial assets	-25	-5		-1	-1	-32
Total	**-490**	**72**	**-1**	**-1**	**-13**	**-433**

Total tax losses carry forward without expiration date, for which deferred tax assets has been recognised, amounts to SEK 249 (186) million for the Group at 31 December 2017. The recognised deferred tax asset for these tax losses are SEK 75 (53) million. The accounts for 2017 and 2016 include deferred tax assets as a tax value of the tax losses carry forward in all countries where it is judged likely that the Group will be able to use its tax losses carry forward to a taxable surplus in a foreseeable future. As a consequence, deferred tax assets related to losses carried forward are not recognised in some countries.

Note 8, continued

Unrecognised tax losses carry-forward by expiry date

Group (SEK million)	2017	2016
2017	–	2
2018	8	11
2019	16	16
2020	20	24
2021 and thereafter	197	200
No expiry date	149	314
Total	**390**	**567**

Parent company

There were no tax losses carry forward in 2017 or 2016 in the parent company.

Distribution of tax expenses

Parent company (SEK million)	2017	2016
Current tax	-59	-27
Adjustment for prior years	0	0
Total tax expenses	**-59**	**-27**

Reconciliation of tax expense

Parent company (SEK million)	2017	%	2016	%
Tax/Tax rate in Sweden	-59	-22.0	-37	-22.0
Non-deductible expenses	-11	-4.1	-3	-1.9
Non-taxable income	11	4.1	13	7.8
Effective tax/ tax rate	**-59**	**-22.0**	**-27**	**-16.1**

Note 9 Items affecting comparability

Group (SEK million)	2017	2016
Impairment related to goodwill, Zoomin.TV	-593	–
Impairment related to capitalized development costs, Zoomin.TV	-58	–
Revaluation of liabilities related to options to acquire shares	333	–
Reclassification of transaction cost related to InnoGames	-23	–
Total	**-340**	**–**

Items affecting comparability (IAC) refers to material items and events related to changes in the Group's structure or line of business, which are relevant to understanding the Group's development on a like-for-like basis. IAC in 2017 refer to the loss related to the yearly impairment test for Zoomin.TV (Q4), revaluation of liabilities related to options to acquire shares in Zoomin.TV and Splay AB and for minority interests within the Nice and Turtle groups and finally the impact of previously capitalised transaction costs when InnoGames became a fully consolidated subsidiary rather than an associated company in May (Q2). 2016 did not include any items affecting comparability.

Note 10 Intangible assets

Accounting for intangible assets

Intangible assets are reported net after deductions for accumulated amortisation according to plan and impairment losses. Amortisation according to plan are normally calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life. The intangible assets are classified in the following categories:

Asset	Amortisation period
Capitalised expenditure	3–10 years
Trademarks	Trademarks being part of a purchase price allocation are normally judged to have indefinite lives
Customer relations	10–15 years
Beneficial rights/ broadcasting licenses	Estimated revenue period based on the terms of the license
Goodwill	Indefinite lives with impairment tests annually or if triggered by events

Capitalised expenditure

Expenditure on development activities, aiming at new or substantially improved products and processes, are capitalised if the process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the direct costs and, when appropriate, cost of direct labour and an appropriate proportion of overheads. Other expenditures is expensed in the income statement as incurred. Capitalised expenditures are stated at cost less accumulated amortisation and impairment losses. The capitalised expenditure relates mainly to software and software platforms.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of an acquired business. Goodwill is recognised as an asset and reviewed for impairment losses at least annually. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill arising from acquisitions of associated companies is included in the reported value of shares in associated companies. Impairment tests are made on the total asset.

Other intangible assets
Other intangible assets, such as acquired customer relations, beneficial rights, broadcasting licenses and trademarks, are stated at cost less accumulated amortisation and impairment losses.

	Group				Parent company
(SEK million)	Capitalised expenditure	Trademarks	Customer relations and other[1]	Goodwill	Capitalised expenditure
Acquisitions					
Opening balance 1 January 2016	376	1,531	628	9,751	55
Investments during the year	119	0	39	106	0
Acquisitions through business combinations	–	–	0	–	–
Revaluations due to finalisations of purchase price allocations	–	1	2	219	–
Sales and disposals during the year	-46	0	0	–	–
Change in Group structure, reclassifications etc	-2	–	1	4	–
Translation differences	3	60	27	323	–
Closing balance 31 December 2016	**450**	**1,593**	**697**	**10,402**	**55**
Opening balance 1 January 2017	450	1,593	697	10,402	55
Investments during the year	226	0	1	–	–
Acquisitions through business combinations	275	325	319	2,353	–
Revaluations due to finalisations of purchase price allocations	–	–	-2	–	–
Sales and disposals during the year	-51	–	0	-10	–
Change in Group structure, reclassifications etc	–	0	0	–	–
Translation differences	7	24	12	202	–
Closing balance 31 December 2017	**907**	**1,941**	**1,026**	**12,948**	**55**
Accumulated amortisation and impairment losses					
Opening balance 1 January 2016	-240	-507	-236	-5,523	-54
Sales and disposals during the year	42	–	0	–	–
Amortisation during the year	-55	0	-51	0	-1
Impairment losses during the year	–	–	-1	-97	–
Change in Group structure, reclassifications etc	2	–	2	–	–
Translation differences	-1	-19	-14	-199	–
Closing balance 31 December 2016	**-252**	**-525**	**-300**	**-5,819**	**-54**
Opening balance 1 January 2017	-252	-525	-300	-5,819	-54
Sales and disposals during the year	51	–	0	–	–
Amortisation during the year	-106	-15	-90	0	-1
Impairment losses during the year	-97	–	–	-593	–
Translation differences	-3	-15	-1	-173	–
Closing balance 31 December 2017	**-407**	**-556**	**-391**	**-6,585**	**-55**
Carrying amount					
As per 1 January 2016	136	1,025	392	4,228	1
As per 31 December 2016	198	1,067	397	4,584	1
As per 1 January 2017	198	1,067	397	4,584	1
As per 31 December 2017	500	1,385	636	6,363	0

[1] Other refers to licenses and beneficial rights.

Note 10, continued

Amortisation by function

Group (SEK million)	2017	2016
Cost of goods and services	154	94
Administrative expenses	54	2
Other operating expenses	4	10
Total	**212**	**106**

Impairment losses by function

Group (SEK million)	2017	2016
Cost of goods and services	38	3
Administrative expenses	–	1
Other operating expenses	1	94
Items affecting comparability	651	–
Total	**690**	**98**

Impairment tests for cash-generating units

Cash generating units with significant carrying amounts of goodwill:

Group (SEK million)	2017	2016
Pay-TV Nordic	672	670
Nice	499	503
P4 Radio	425	447
Turtle including subsequent acquisitions	1,216	1,202
Zoomin.TV	–	588
Trace	286	278
InnoGames	1,994	–
Kongregate	385	–
Other units	887	896
Total	**6,363**	**4,584**

The changes in goodwill between 2016 and 2017 are due to the acquisitions of InnoGames and Kongregate, and in the case of Zoomin.TV impairment of goodwill. Any other changes are due to translation differences.

Cash generating units with significant carrying amounts of trademarks with indefinite lives:

Group (SEK million)	2017	2016
P4 Radio	236	248
Nice	140	136
Turtle	344	334
Zoomin.TV	69	67
InnoGames	249	–
Kongregate	63	–
Trace	77	75
Other units	208	208
Total	**1,385**	**1,067**

These trademarks have a strong position on their respective markets and will be actively used in the businesses, and are thereby judged to have indefinite lives. The trademarks are improved and developed continuously, and the net cash flows generated through these are not considered to cease within a foreseeable future. The changes in trademarks during 2017 are mainly due to the acquisitions of InnoGames and Kongregate. Other changes are due to translation differences.

Impairment testing

Impairment testing, of goodwill and other intangible assets with indefinite lives, for cash-generating units in the business segment are based on calculations of the recoverable amount (value in use), using a discounted cash flow model. The cash flow is discounted at a pre-tax interest of 12% (12) considering the cost of capital and risk. Specific individual discount rates might be used in some cases, related to circumstances such as the territory or the economic environment. If the headroom turn out to be low in relation to the carrying value, specifically calculated WACC for the business in question is used. The model involves key assumptions such as market size, share and growth rates, sales prices and cost growth together with working capital requirements. These cash flow projections, calculated over a minimum of a five year period, are based on actual operating results, forecasts and financial projections, using historical trends, general market conditions, industry trends and other available information. After the five-year period, a growth rate of 2.5% (2.5) is normally applied.

The cash flow projections are based on a sustainable growth rate which is individually estimated based on each unit's outlook. Individual assumptions are also made on cost and capital turnover development.

Impairments

The impairment tests are carried out on a regular basis, annually or when triggered by events. Due to the low performance in Zoomin.TV in 2016, the Board and the management concluded that the goodwill had an impairment requirement. The results in Zoomin.TV was mainly due to lower advertising prices for digital video networks. However, performance did not improve in 2017, resulting in an impairment of the remaining goodwill. The discount rate used when calculating the recoverable amount was 12 per cent (11.2) based on the individually calculated WACC for the year. The recoverable amount (value in use) amounted to SEK 181 million. Total impairment of goodwill amounted thereby to SEK 688 million whereof SEK 593 million in 2017. The enterprise value as per the acquisition was EUR 88 million. Zoomin. TV is reported in the MTGx segment. Impairment losses in goodwill are included in items affecting comparability in the income statement. In addition, capital expenditures in ZoominTV have been written down by SEK 58 million.

Sensitivity

The units, which do not indicate an impairment requirement, have such a margin that reasonably possible adverse changes in individual parameters would not cause the value in use to fall below the book value. However, cash flow projections are to its nature more uncertain and may also be influenced by factors not in control by the company. Such factors could be political risks and general market conditions, which might quickly deteriorate due to a financial crisis such as crisis due to instability in the financial sector.

Note 11 Tangible assets

Accounting for tangible assets
Machinery and equipment are reported at cost less accumulated depreciation and any impairment losses. Where parts of an item of machinery and equipment have different useful lives, they are accounted for as separate items of machinery and equipment. Depreciation are normally calculated using the straight-line method over the assets estimated useful life. Machinery and equipment are depreciated over a period of 3 to 5 years.

	Group		Parent company
(SEK million)	Machinery	Equipment, tools and installations	Equipment
Acquisitions			
Opening balance 1 January 2016	89	800	6
Investments during the year	40	108	0
Acquisitions through business combinations	–	6	–
Sales and scrapping during the year	-13	-222	–
Change in Group structure, reclassifications etc	–	-2	–
Translation differences	2	26	–
Closing balance 31 December 2016	**118**	**716**	**7**
Opening balance 1 January 2017	118	716	7
Investments during the year	26	77	0
Acquisitions through business combinations	0	32	–
Sales and scrapping during the year	-3	-36	–
Change in Group structure, reclassifications etc	16	-16	–
Translation differences	-1	2	–
Closing balance 31 December 2017	**156**	**776**	**7**
Accumulated depreciation			
Opening balance 1 January 2016	-58	-461	-6
Sales and scrapping during the year	13	48	–
Depreciation during the year	-18	-83	-1
Impairment losses during the year	–	0	–
Change in Group structure, reclassifications etc	1	0	–
Translation differences	-1	-20	–
Closing balance 31 December 2016	**-63**	**-516**	**-6**
Opening balance 1 January 2017	-63	-516	-6
Sales and scrapping during the year	3	29	–
Depreciation during the year	-24	-83	0
Impairment losses during the year	0	-1	–
Change in Group structure, reclassifications etc	-4	4	–
Translation differences	0	-3	–
Closing balance 31 December 2017	**-88**	**-572**	**-7**
Carrying amount			
As per 1 January 2016	31	338	1
As per 31 December 2016	55	199	0
As per 1 January 2017	55	199	0
As per 31 December 2017	68	204	0

Note 11, continued

Depreciation by function

Group (SEK million)	2017	2016
Cost of goods and services	56	45
Selling expenses	1	2
Administrative expenses	42	55
Other operating expenses	9	0
Total	**108**	**101**

Impairment losses by function

Group (SEK million)	2017	2016
Cost of goods and services	0	0
Administrative expenses	0	0
Other operating expenses	1	–
Total	**1**	**0**

Accounting for finance leases

A finance lease is a contract that entails the lessee to a material extent enjoying all economic benefits and bearing all economic risks associated with the asset regardless of whether or not the lessee retains the legal right of ownership of the asset. For finance leases, the lease asset is reported as a non-current asset and the obligation for future payments as a liability in the lessee's balance sheet. MTG has no material finance leases.

Note 12 Long-term financial assets

Group companies

The following table lists the major companies included in the MTG Group. A detailed specification of Group companies has been submitted to the Swedish Companies Registration Office and is available upon request from Modern Times Group MTG AB Investor Relations.

Shares and participations in Group companies

Parent company (SEK million)	Co. Reg.no.	Registered office	Number of shares	Share capital (%)	Voting rights (%)	Book value 31 Dec
MTG Publishing AB	556457-2229	Stockholm	1,000	100	100	6,023
MTG Radio AB	556365-3335	Stockholm	1,000	100	100	65
This is nice AB	556264-3261	Stockholm	2,000	100	100	117
MTG Holding AB	556057-9558	Stockholm	5,000	100	100	102
MTG AS Norge		Norway	82,300	100	100	33
Total						**6,339**

Ownership in Group companies	Co. Reg.no.	Registered office	Share capital (%)	Voting rights (%)
MTG Broadcasting AB	556353-2687	Sweden	100	100
MTG Publishing AB	556457-2229	Sweden	100	100
MTG Radio AB	556365-3335	Sweden	100	100
Viasat AB	556304-7041	Sweden	100	100
Viaplay AB	556513-5547	Sweden	100	100
Dreamhack AB	556845-8763	Sweden	100	100
Splay AB	556909-3882	Sweden	96	96
Strix Television AB	556345-5624	Sweden	100	100
Viasat A/S		Denmark	100	100
TV3 Sport1 A/S		Denmark	100	100
Modern Times Group MTG A/S		Denmark	100	100
Viasat AS		Norway	100	100
Modern Times Group MTG AS		Norway	100	100
P4 Radio Hele Norge AS		Norway	100	100
NICE Entertainment Group Oy		Finland	100	100
Oy Viasat Finland Ab		Finland	100	100
Modern Times Group MTG Ltd		United Kingdom	100	100
Digital Rights Group Limited		United Kingdom	95	95
Nova Broadcasting Group Jsc.		Bulgaria	95	95
Zoom In Group BV		Netherlands	51	51
Turtle Entertainment GmbH		Germany	74	74
Turtle Entertainment America Inc		USA	74	74
InnoGames GmbH		Germany	51	51
Kongregate Inc.		USA	100	100

Shares and participations in Group companies

Parent company (SEK million)	2017	2016
Opening balance 1 January	6,339	6,342
Write-down of shares	–	–
Liquidation of subsidiary	–	-3
Closing balance 31 December	**6,339**	**6,339**

Non-controlling interests

MTG holds a number of subsidiaries with non-controlling interest, of which one is considered to be significant. The Group holds 51% of the shares and voting rights in InnoGames Gmbh, Germany. The holding in InnoGames GmbH is therefore consolidated as a subsidiary and the non-controlling interest amounts to 49% of the shares and voting rights. Net assets stated in the table below are excluding group surplus values. InnoGames became a subsidiary in 2017.

MTG held 50% of Prima Group, Czech Republic, until April 2017. The Group exercised control through agreements. In 2016, total comprehensive income amount to 198 million of which SEK 99 million were attributed to non-controlling interest. Net assets were SEK 339 million as per 31 December 2016, of which SEK 169 million were attributed to non-controlling interest.

InnoGames (SEK million)	2017	2016
Net sales	1,017	–
Net income	80	–
Other comprehensive income	15	–
Total comprehensive income for the year	**96**	**–**
of which attributable to non-controlling interest	47	–
Dividends paid to non-controlling interest	–	–
Non-current assets	161	–
Current assets	480	–
Total assets	**641**	**–**
Non-current liabilities	45	–
Current liabilities	209	–
Total liabilities	**254**	**–**
Net assets	**388**	**–**
of which attributable to non-controlling interest	190	–
Cash flow from operations	224	–
Cash flow from investing activities	-53	–
Cash flow from financing activities	-4	–
Net change in cash and cash equivalents	**167**	**–**

Note 13 Long-term receivables

Long-term receivables from Group companies

Parent company (SEK million)	2017	2016
Opening balance 1 January	10,016	9,938
New lending	12	420
Re-payments	-76	-333
Reclassifications	-12	-9
Closing balance 31 December	**9,941**	**10,016**

Note 14 Accounts receivables

Group (SEK million)	31 Dec 2017	31 Dec 2016
Accounts receivables		
Accounts receivables, gross	2,142	1,786
Less allowances for doubtful accounts	-174	-109
Total	**1,969**	**1,677**
Allowance for doubtful accounts		
Opening balance 1 January	109	97
Provision for potential losses	85	43
Actual losses	-5	-9
Reversed provisions	-17	-25
Translation differences	2	3
Closing balance 31 December	**174**	**109**
Age analysis of account receivables		
Not due	1,192	1,105
< 30 days	419	301
30-90 days	200	148
> 90 days	157	123
Total	**1,969**	**1,677**
Receivables due with provisions for bad debt		
> 90 days	174	109
Total	**174**	**109**

Note 15 Prepaid expense and accrued income

Parent company (SEK million)	31 Dec 2017	31 Dec 2016
Prepaid financing costs	5	9
Other	2	3
Total	**7**	**12**

Note 16 Earnings per share

Group (SEK million)	2017	2016
Earnings per share before dilution		
Net income for the year attributable to equity holders of the parent company	1,250	-213
Shares outstanding on 1 January	66,663,816	66,635,969
Effect from share awards exercised	42,582	20,027
Weighted average number of shares, basic	**66,706,398**	**66,655,996**
Basic earnings per share, SEK	18.73	-3.19
Diluted earnings per share		
Diluted net income for the year attributable to the equity holders of the parent company	1,250	-213
Weighted average number of shares, basic	66,706,398	66,655,996
Effect from share awards	435,921	170,829
Weighted average number of shares, diluted	**67,142,319**	**66,826,825**
Diluted earnings per share, SEK	18.61	-3.19
Earnings per share before dilution, continued operations		
Net income for the year attributable to equity holders of the parent company, continued operations	546	733
Basic earnings per share, SEK, continued operations	8.19	10.99
Diluted earnings per share, SEK, continued operations	8.13	10.96

Potentially dilutive instruments

Modern Times Group MTG AB has outstanding long-term incentive plans. The potential dilution is calculated in order to determine the number of shares that can be acquired at fair value based on the value of the share awards. Retention and performance share awards are included in the potentially dilutive shares from the start of the program, and in accordance with the performance targets achieved. The Company has outstanding programmes from 2015, 2016 and 2017, where the performance are not yet achieved, but that might have a diluting effect. As per 31 December 2017 the share awards amounted to 943,828 (742,231).

Note 17 Shareholders' equity

Shares issued

Parent company	2017 Number of shares paid	2017 Quota value (SEK million)	2016 Number of shares paid	2016 Quota value (SEK million)
MTG Class A	5,007,393	25	5,007,793	25
MTG Class B	61,774,731	309	61,774,331	309
MTG Class C	865,000	4	865,000	4
Total number of shares issued/total quota value as per 31 December	**67,647,124**	**338**	**67,647,124**	**338**

The holder of an MTG Class A share is entitled to 10 voting rights, the holder of an MTG Class B and MTG Class C share one voting right. Class C shareholders are not entitled to dividend payments. The Class C shares are held by the parent company. The quota value is SEK 5 (5) per share. During 2017, 400 Class A shares were reclassified to Class B shares.

Out of the totally issued shares, 56,875 (118,308) Class B shares and 865,000 (865,000) Class C shares are held as treasury shares.

The Board of Directors propose to the Annual General Meeting 2018 an ordinary dividend of SEK 12.50 (12.00) per share, which corresponds to 95% (93) of this year's net income continuing operations and excluding items affecting comparability. The total proposed dividend payment would amount to a maximum of SEK 837,200,000 based on the maximum potential number of outstanding ordinary shares as at the record date. The Group continues to maintain a strong financial position for its future development. The Board of Directors was given a mandate to buy back shares at the Annual General Meeting in 2017 and 2016. The mandate was not utilised in 2017 or 2016.

Paid-in capital/Premium reserve

The paid-in capital arises when shares are issued at a premium, i.e. shares were paid at a higher price than the quota value. The premium reserve in the parent company relates to employee options exercised during 2010, 2009 and 2008 only.

Translation reserve in equity

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations to Swedish krona in the consolidated accounts.

Group (SEK million)	2017	2016
Opening balance, 1 January	-289	-1,461
This year's translation differences, net of tax, continuing operations	20	111
This year's translation differences, net of tax, discontinued operations	-52	1,060
Total accumulated translation differences, 31 December	**-320**	**-289**

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Hedging positions are taken to protect the Group against the effects of transaction exposures in the contracted outflow for the main part of programme acquisitions in foreign currency.

Group (SEK million)	2017	2016
Opening balance, 1 January	110	79
Recognised in other comprehensive income	-147	84
Transferred to the acquisition value of item hedged (inventory programme rights)	26	-52
Closing balance, 31 December	**-11**	**110**

Fair value reserve

The fair value reserve of 0 (0) million includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised. If a decrease in values has occurred for a longer period of time, the change is charged to the income statement and will therefore not be recognised in the fair value reserve.

Revaluation reserve

The revaluation reserve includes revaluation of trademarks in relation to successive share purchase.

Group (SEK million)	2017	2016
Opening balance, 1 January	-12	-12
Closing balance, 31 December	**-12**	**-12**

Retained earnings

Retained earnings comprise of previously earned income.

Non-controlling interest

In subsidiaries not wholly owned, the share of equity owned by external shareholders is recorded as non-controlling interest. In cases where option clauses exist, the companies have been 100% consolidated.

Note 18 Provisions

Accounting for Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the anticipated liability.

Accounting for Pensions

There are mainly defined contribution pension plans within the Group. The Group's payments to defined contribution plans are reported as costs in the period when the employee performed the services to which the fee relates. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Group (SEK million)	Restructuring provision	Royalties and other provisions	Pension provisions	Total
Opening balance, 1 January 2016	284	414	7	705
Provisions during the year	–	182	–	182
Utilised during the year	-222	-23	–	-245
Reversed during the year	–	-104	–	-104
Reclassifications	–	-89	–	-89
Translation differences	2	7	–	9
Closing balance, 31 December 2016	**64**	**387**	**7**	**459**
Opening balance, 1 January 2017	64	387	7	459
Provisions during the year	–	225	1	227
Provisions from acquisition of entities	–	1	–	1
Utilised during the year	-26	-16	–	-43
Reversed during the year	–	-127	–	-127
Reclassifications	–	–	–	0
Translation differences	–	1	–	1
Closing balance, 31 December 2017	**38**	**471**	**9**	**518**

The Group has defined benefit pension plans in Norway and in one Swedish company. The plans relate to a few employees and the amounts relating to these pension plans are immaterial. The Swedish plan is a multi-employer defined benefit plan. The Group reports these pension costs in the same way as defined contribution plans.

The restructuring provision consists of expenses related to the restructuring programme launched during 2015, mainly for redundancies. The majority of the provision has been paid out during 2016.

Parent company

The provisions in the parent company comprise accrued social expenses on share-based payments of SEK 13 (2) million.

Note 19 Accrued expense and deferred income

Parent company (SEK million)	31 Dec 2017	31 Dec 2016
Accrued personnel costs	52	40
Accrued interest costs	1	2
Accrued professional fees	21	6
Other	2	1
Total	**77**	**48**

Note 20 Pledged assets and contingent liabilities

There are no pledged assets in the Group in 2017 and 2016.

Various MTG companies are involved in disputes with collecting societies over payment of royalties for the past use of copyrights and similar rights. Further, MTG companies are parties in litigations. The Company does not believe that the outcome of these litigations are likely to have a material adverse effect on the financial position of the Group. These litigations are therefore not included in the contingent liabilities. There are no contingent liabilities in the Group in 2017 and 2016.

Contingent liabilities, Parent company

Parent company (SEK million)	31 Dec 2017	31 Dec 2016
Guarantees subsidiaries	152	227
Total	**152**	**227**

The parent company issues guarantees to the benefit of the subsidiaries. These include mainly rental agreements and capital coverage.

Note 21 Financial instruments and financial risk management

Accounting for financial instruments
Financial assets and liabilities include cash and cash equivalents, securities, derivative instruments, other financial receivables, accounts receivables, accounts payable, contingent considerations and loan liabilities.

Financial assets available-for-sale
The Group's holdings in listed shares available for sale are measured at market value based on bid price as per the balance sheet day. Changes in the market values of these shares will impact other comprehensive income unless there is a significant decrease in value (20% or above) or if the decrease continues for a longer period of time when the value change is expensed in the income statement.

Loans and receivables
Loan receivables and accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The receivables are classified as current assets, with the exception of receivables with maturities later than 12 months after the balance-sheet date, these are classified as non-current assets. Loan receivables and accounts receivables comprise accounts receivables and other receivables and cash and cash equivalents. Receivables are stated at amortised cost less impairment losses. The receivables are reviewed monthly to determine whether there is an indication of impairment. Such indications include receivables due for a longer period than 90 days. Doubtful accounts receivables are reported with the amount at which they are deemed likely to be paid.

Financial assets and liabilities at fair value through profit or loss
Derivatives at fair value that are not subject to hedge accounting are recognised as financial assets or liabilities and categorised as held for trading. Other items reported in this category are contingent considerations relating to acquisitions of subsidiaries. The assets and liabilities are measured at fair value with the changes in value reported in profit or loss.

Options related to subsidiaries acquired
When a subsidiary is acquired and previous owners remain as non-controlling interest, the agreement often includes an option for the minority owners to sell their share of the acquired company to the Group at a later stage. In such cases no non-controlling interest is reported but instead a financial liability is recognised. The liability is reported at the discounted present value of the redemption amount of the shares.

Derivative instruments
The Group uses forward contracts to hedge its exposure to foreign exchange arising from operational activities. The major part of contracted programme acquisition outflows in US dollars and Euro is hedged. Derivatives that do not qualify for hedge accounting due to the rules in IAS 39 are accounted for as financial instruments held for trading.

Derivative financial instruments are recognised initially at cost and remeasured to fair value thereafter. The effective part of the gain or loss in the cash flow hedge is recognised in other comprehensive income with the aggregated changes in value in the hedge reserve in equity. When the forecasted transaction results in the recognition of programme inventory, the cumulative gain or loss is removed from equity and included in the initial cost of inventory. Gain or loss when the hedge transaction is terminated are recognized through profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously reported in other comprehensive income is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Capital management
The primary objective of the Group's capital management is to ensure financial stability, manage financial risks and secure the Group's short-term and long-term need of capital. The Group defines its capital as equity including non-controlling interest as stated in the balance sheet.

The Group manages its capital structure and makes adjustments when necessary due to economic conditions in its environment. To maintain or adjust the capital structure, the Group may change the dividend payment to shareholders, buy-back shares or issue new shares.

The Group monitors capital efficiency using different ratios, such as net debt, return on capital employed and equity to assets ratio.

Financial risk management
In addition to business operational risks, MTG is exposed to various financial risks in its operations. The most important financial risks are refinancing-, credit-, interest rate- and currency risk, which all are regulated by the financial policy adopted by MTG's Board of Directors.

The Group's financial policy constitutes a framework of guidelines and rules for financial risk management and financial activities in general. The policy is subject to a yearly review. The Group's financial risks are continuously compiled and followed

Note 21, continued

up at corporate level by MTG's treasury function to ensure compliance with the financial policy. The parent company treasury function is responsible for managing the financial risks. The aim is to limit the Group's financial risks, and ensure that the Group has appropriate and secure financing for its current needs.

Liquidity in the Group is concentrated with the central financing function and in local cash pools accounts. Surplus liquidity may be invested during a period of maximum six months. The financial policy includes a special counterparty regulation by which a maximum credit exposure for various counterparties to minimise the risk is stipulated.

Financing and refinancing risk

Financing risk is the risk of not being able to meet the need for future funding requirements. MTG's sources of funding are primarily shareholders' equity, cash flows from operations and borrowing. In order to reduce the refinancing risk the Group strives to diversify the funding sources and maturity tenors and normally initiate refinancing of all loans 12 months prior to maturity. The Group shall at all times strive for relevant key ratios equal to investment grade rating.

External borrowing is managed centrally in accordance with the Group's financial policy. Loans are primarily taken up by the parent company, and transferred to subsidiaries as internal loans or capital injections. There are also companies who have external loans and/or overdraft facilities connected directly to these companies.

The Group has a SEK 1,000 million corporate bond maturing March 2018 with a floating rate 3-month Stibor (if Stibor is higher than 0%) plus a 1.10% coupon. Additionally the Group has a medium term note program (frame SEK 2,000 million) renewed annually. Under the program a SEK 500 million bond was issued in 2016 maturing October 2020 with a floating rate 3-month Stibor plus 1.40% coupon (not lower than 0% in total). In the short term capital market the Group has an uncommitted SEK 3,000 million frame commercial paper programme, of which SEK 1,625 million was issued at the balance sheet date.

Additionally the Group had at the balance sheet date a five-year committed SEK 5,500 million syndicated multi-currency bank facility arranged in December 2013. The facility has been replaced with a one-year committed SEK 4,000 million syndicated multi-currency bank facility arranged in January 2018. The revolving credit facility is unsecured with no required amortisations and can be paid out in optional currencies. The interest varies with IBOR (not lower than 0%) depending on the currency utilised. Covenants for the facility are based on the ratios total consolidated net debt in relation to consolidated EBITDA and consolidated EBITDA to net financial expenses. There are no regulatory external capital requirements to be met by the parent company or any of the subsidiaries other than the covenants. These terms are the same for the facilities arranged in 2013 and 2018. The covenants have been fulfilled. The facility was unutilized at the balance sheet date.

Overdraft facilities within the Group's cash-pool banks consist of two overdraft facilities of SEK 125 million each, one of NOK 55 million and one of SEK 15 million. In total SEK 320 million of which nil was drawn at the balance sheet date. Facilities in subsidiaries amounted to a total of SEK 62 million of which nil was drawn at the balance sheet date.

As per 31 December 2017, total short- and long-term borrowings amounted to SEK 3,223 (2,993) million including SEK 3,125 million borrowed from the capital market.

Finance lease liabilities

MTG has no material finance leases.

Net debt

Group (SEK million)	31 Dec 2017	31 Dec 2016
Short-term loans	1,625	1,435
Current part of long-term loans	1,000	–
Short-term borrowings	**2,625**	**1,435**
Other short-term interest-bearing liabilities	3	1
Total short-term borrowings	**2,628**	**1,436**
Long-term borrowings	500	1,500
Other long-term interest-bearing liabilities	95	58
Total long-term borrowings	**595**	**1,558**
Total borrowings	**3,223**	**2,993**
Cash and cash equivalents	1,394	666
Long- and short-term interest-bearing assets	11	15
Total cash and interest-bearing assets	**1,405**	**682**
Net debt excluding assets held for sales	**1,818**	**2,312**
Net debt related to assets held for sale	-6	-126
Total net debt	**1,812**	**2,186**
Total credit facilities	5,882	5,933
Where of unutilised	5,882	5,933

Maturity of long-term loans

Parent company (SEK million)	31 Dec 2017	31 Dec 2016
Amount due for settlement within 12 months	1,000	–
Amount due for settlement within 13 to 59 months	500	1,500
Amount due for settlement after 60 months	–	–
Total	**1,500**	**1,500**

Terms and payback period, gross values

	2017						
Group (SEK million)	Interest rate	Fixed interest term	Effective interest rate	Total	Maturity 2018	Maturity 2019	Maturity 2020 or later
Bond loan	1.03	3 months	1.05	1,516	1,007	5	504
Commercial papers	0.11	1–4 months	0.14	1,625	1,625	–	–
Other interest-bearing liabilities				98	3	95	–
Accounts payable				1,791	1,791	–	–
				5,030	**4,426**	**100**	**504**

Terms and payback period, gross values

Group (SEK million)	Interest rate	Fixed interest term	Effective interest rate	Total	Maturity 2017	Maturity 2018	Maturity 2019 or later
	2016						
Bond loan	1.03	3 months	1.05	1,530	15	1,007	508
Commercial papers	0.16	1–4 months	0.20	1,435	1,435	–	–
Other interest-bearing liabilities				59	1	–	58
Accounts payable				1,993	1,993	–	–
				5,017	**3,444**	**1,007**	**566**

The interest have been calculated using the current interest rates on 31 December. The liabilities have been included in the period when repayment may be required at the earliest.

Market risks

Interest rate risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect cash flow, financial assets and liabilities. The Group is exposed to interest rate risk through loans, derivatives, other financial assets and utilised interest-bearing credit facilities. The Group's financial policy aim to gain financial flexibility through a balanced mix between variable and fixed interest rates and spreading maturities to match funding needs. During 2016-2017, the interest rate period was less than 1 year.

Short-term investments and cash and cash equivalents amounted to SEK 1,394 (666) million as per 31 December and the average interest rate period on these assets was approximately 0 month. Assuming the same debt structure, including refinancing the expiring bond with the revolving credit facility, a 1% increase in interest rates would have an impact on the Group's interest expense of approximately SEK 23 million. A 1% decrease would reduce the interest expense by approximately SEK 5 million. The difference is due to the terms of the loans and current negative interest rates. The calculation is based on the change in Stibor interest rate and does not take the maturity of the loan or changes in currency rates into consideration. The Group does not currently hedge its interest rate risks.

Credit risk

Credit risk is defined as the risk that the counterparty in a transaction will not fulfil its contractual obligations and any collateral will not cover the claim of the MTG company. The credit risk in the Group consists of financial credit risk and customer credit risk.

Financial credit risk is the risk arising for the Group in its relations with financial counterparties. The management of the financial credit risk is regulated in the Group's financial policy.

Financial counterparties must have a rating of the equivalent of S&P's single A rating or higher for larger deposits of cash or surplus funds. Standardised ISDA agreements are signed with all counterparties involved in foreign exchange transactions. Transactions are made within fixed limits and exposures are continuously monitored.

The credit risk with respect to the Group's accounts receivables is diversified among a large number of customers, both private individuals and companies. The Group's assessment based on historical data is that there are no write-down requirements for accounts receivables not due. The majority of the current outstanding accounts receivables comprise previously known customers, who are judged to have good credit worthiness. See also note 14 Accounts receivables.

The Group's exposure to credit risk amounts to SEK 3,386 (2,369) million as per 31 December. The exposure is based on the carrying amount for the financial assets, the major part comprising cash and cash equivalents and accounts receivables.

Insurable risks

The parent company ensures that the Group has sufficient insurance coverage, including business interruption, director and officer liabilities and asset losses. This is done via corporate umbrella solutions to cover most territories.

Currency risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the income statement, financial position and/or cash flows. The risk can be divided into transaction exposure and translation exposure. Please also refer to the Directors' report under "Risks and uncertainties".

Transaction exposure

Transaction exposure arise when inflow and outflow in foreign currencies in the financial statements of the separate entities within the Group are not matched. According to the MTG financial policy, the Group shall hedge the major contractual future currency flows on the basis of maximum 36 months forward. The corporate treasury department strives to match inflows and outflows in the same currency and also to take advantage of natural hedges. Hedging is performed to protect the Group against the effects of transaction exposures in the contracted outflow for the main part of programme acquisitions in US dollars. Approximately 85-100% of the contracted currency flows related to programme acquisitions for the next 12 months are hedged. The hedging reserve at year-end amounted to a total of SEK -11 (110) million. Hedges with a maturity later than 12 months have a market value of SEK -35 (32) million at year-end.

The transaction exposures in the Group occurs when the subsidiaries have external and internal transactions in currencies other than the subsidiary's functional currency. Below is the net of hedges and forecasted transaction exposures for the next 12 months:

Note 21, continued

Currency (SEK million)	USD	EUR	DKK	NOK	GBP
Transaction flows	-2,633	-2,262	2,317	1,266	-260
Hedges due in 12 months	2,374	411	-127	-426	171
Net transaction flows	**-259**	**-1,851**	**2,190**	**840**	**-89**
Effect if SEK falls 5%	-13	-93	110	42	-4

The nominal value of the major hedge contracts amounted to:

Currency (million)	2017	2016
EUR	42	75
USD	383	354

The effect of a change in the rate by 5% on all of the outstanding positions as per 31 December would have been approximately SEK 166 (170) million, the impact on equity would be after deduction of tax.

Translation exposure

Translation exposure is the risk that arises when translating equity in a foreign subsidiary, associated company or joint venture. There are no hedging positions for translation exposure.

Foreign net assets including goodwill and other intangible assets arising from acquisitions are distributed as follows:

	2017		2016	
Currency	SEK million	%	SEK million	%
USD	655	7	91	1
NOK	1,399	15	1,262	20
EUR	6,130	66	4,311	67
DKK	592	6	588	9
Other currencies	559	6	155	2
Total equivalent SEK value	**9,336**	**100**	**6,406**	**100**

A 5% change in EUR/SEK would affect equity by approximately SEK 307 (216) million.

Financial assets and liabilities

Group (SEK million)	Recognised value[1] 2017	Recognised value[1] 2016
Financial assets at fair value through profit and loss, Other long-term receivables	–	32
Financial assets at fair value through profit and loss, Other receivables, non-interest-bearing	0	171
Financial assets available-for-sale	9	5
Loans and receivables	3,396	2,359
Total financial assets	**3,405**	**2,567**
Financial liabilities valued at fair value	1,117	1,342
Other financial liabilities	5,012	4,987
Total financial liabilities	**6,129**	**6,328**

[1] Book value equals fair value except for other financial liabilities where the fair value is SEK 9 (12) million higher than the book value.

Parent company (SEK million)	Recognised value[1] 2017	Recognised value[1] 2016
Financial assets at fair value through profit and loss	110	203
Financial assets available-for-sale	1	1
Loans and receivables	10,855	10,679
Total financial assets	**10,966**	**10,883**
Financial liabilities valued at fair value	112	199
Other financial liabilities	11,742	11,193
Total financial liabilities	**11,854**	**11,392**

[1] Book value equals fair value except for other financial liabilities where the fair value is SEK 9 (12) million higher than the book value.

Classification of financial instruments at fair value in the balance sheet

Financial instruments recorded at fair value are classified in a three level hierarchy depending on the quality of the source of data used to determine the fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities are used to determine the fair value.

Level 2 – observable sources of data for the asset or liability, either directly or as price noted on a market or indirectly as derived from market data, are used to determine fair value.

Level 3 – unobservable input data which are not based on market data are used to arrive at the fair value.

Financial instruments available-for-sale, which comprise shares in listed companies are classified as level 1. Derivative instruments such as forward foreign exchange contracts are classified as level 2. Contingent considerations and options at fair value related to acquisitions are classified as level 3.

Fair value of financial instruments in the balance sheet

Group (SEK million)	31 December 2017 Level 1	31 December 2017 Level 2	31 December 2017 Level 3	31 December 2016 Level 1	31 December 2016 Level 2	31 December 2016 Level 3
Financial assets						
Financial assets available-for-sale						
Shares and other investments in other companies	9			5		
Derivatives						
Forward foreign exchange contracts		–			203	
Financial liabilities						
Derivatives						
Forward foreign exchange contracts		112			–	
Contingent considerations acquisitions						
Contingent considerations and options to acquire further shares			1,005			1,342

Parent company
The Parent company has the following financial instruments carried at fair value in the balance sheet; Level 1: Shares and other investments in other companies, SEK 1 million (1). Level 2: Forward foreign exchange contracts (asset), SEK 110 million (203) and Forward foreign exchange contracts (liabilities) amounting to SEK 112 million (199).

Group
Level 1 items have been valued at the market prices on Nasdaq Stockholm on the balance sheet day without transaction costs. For level 2 items, forward rates from Bloomberg have been used to calculate fair value for the derivatives. Level 3 items are recognised at present value of future cash flows in accordance with the agreements.

Other financial assets are reported in the balance sheet in cash and cash equivalents, interest-bearing receivables, and loans and receivables (accounts receivables, and accounts receivables associated companies). Financial liabilities are other liabilities reported in accounts payable, short-term interest-bearing liabilities and long-term interest-bearing liabilities. The company judges the book values and the fair values to approximately correspond for these items. The fair value of financial liabilities other than derivatives are based on future contractual cash flows for the principal amount and interest, discounted at market interest rate at the balance sheet date. The carrying amount of cash and cash equivalents, other receivables, accounts receivables and accounts receivables from associated companies and interest-bearing liabilities, accounts payables and other liabilities represent a reasonable approximation of fair value.

Level 3 financial liabilities refer to put options from previous acquisitions where the seller has the option to sell further shares in previously acquired subsidiaries to MTG. The options are measured and recognised as a liability due to the seller´s possibility to exercise the put option. The valuation of the liability is based on the contractual terms for exercise, normally constructed as a price multiple based on a company valuation which in turn is based on forecasted cash flows of the business concerned. The most critical parameters are estimated future revenue growth and future operating margin. The options are revalued at each closing and the calculations are based on updated forecasts and market interest rates for discounting. A change in estimated future growth of plus/minus 2% would impact the aggregated valuation with SEK +/- 29 million. A change in estimated future operating margin of plus/minus 1% would impact the aggregated valuation with SEK +/- 29 million.

Financial liabilities, level 3

Group (SEK million)	2017	2016
Opening balance 1 January	1,342	1,103
New acquisitions	17	66
Revaluations due to finalisations of purchase price allocations	–	200
Exercise	-48	-7
Changes in fair value	-344	-102
Interest expenses from discounting	22	38
Translation differences	17	44
Closing balance 31 December	**1,005**	**1,342**

Note 22 Supplementary information to the statement of cash flows

Adjustments to reconcile net income/loss to net cash provided by operations

Group (SEK million)	2017	2016
Gain or loss from investments	23	-44
Depreciation and amortisation	320	207
Write-downs	691	98
Provisions	59	-241
Revaluation of liabilities related to options to acquire shares	-344	-102
Unrealised exchange differences	-21	7
Other items	-29	5
Total	**699**	**-70**

Cash paid for interest and corporate tax

Group (SEK million)	2017	2016
Interest paid	-18	-20
Interest received	1	3
Corporate income tax	-359	-173
Total	**-376**	**-190**

Parent company (SEK million)	2017	2016
Interest paid	-18	-20
Interest received	240	262
Corporate income tax	-26	-22
Cash received for group dividends	46	15
Total	**242**	**235**

Reconciliation of debts arising from financing activities

Group (SEK million)	Opening balance 2017	Cash flows	Reclassi-fication	Exchange rate difference	Closing balance 2017
Short-term loans	1,435	190	–	–	1,625
Long-term borrowings	1,500	–	-1,000	–	500
Current part of long-term loans	–	–	1,000	–	1,000
Other long-term interest-bearing liabilities	56	37	–	2	95
Total	**2,991**	**227**	**–**	**2**	**3,220**

All external borrowings, except for Other long-term interest-bearing liabilities, are attributable to the parent company. In addition the parent company has interest-bearing receivables from and liabilities to other Group companies. The liabilities to Group Companies at year-end amounted to SEK 8,602 (8,005) million, the change during the year is explained by a positive cash flow of SEK 599 million and SEK -2 million in exchange rate difference. Receivables from Group Companies at year-end amounted to SEK 9,941 (10,016) million, the change during the year is explained by a negative cash flow in the parent company of SEK 63 million and a reclassification of SEK -12 million.

Note 23 Lease and other commitments

Accounting for leases

An operating lease is a lease that does not fulfil the conditions for a finance lease. For operating leases, the rental expense is recognised in the lessee's accounts on a straight line basis over the period during which the asset is used. The main part of the Group's operating lease agreements are rental agreements for offices.

Commitments for future payments on non-cancellable operational leases at 31 December

Group (SEK million)	2017	2016
2017	–	225
2018	245	193
2019	201	151
2020	183	144
2021	157	140
2022 and thereafter	497	435
Total lease commitments	**1,284**	**1,288**
This year's costs		
Minimum lease fees	257	224
Variable fees	7	7
This year's costs	**264**	**231**

Other commitments for future payments at 31 December

Group (SEK million)	Future payments for programme rights 2017	Future payments for programme rights 2016	Transponder commitments 2017	Transponder commitments 2016
2017	–	3,415	–	259
2018	3 430	3,129	192	193
2019	3 064	1,226	168	163
2020	2 214	811	56	53
2021	942	286	–	–
2022 and thereafter	589	18	–	–
Total other commitments	**10 239**	**8,886**	**416**	**668**

Note 24 Average number of employees

Group	2017 Men	2017 Women	2016 Men	2016 Women
Sweden	567	326	610	341
Germany	440	90	164	32
Bulgaria	262	290	274	274
Norway	162	146	183	154
United Kingdom	79	96	150	103
Denmark	118	88	156	94
Netherlands	38	57	61	44
Finland	32	33	42	41
France	59	31	51	32
United States	143	41	72	7
Other	132	50	193	69
Total	**2,032**	**1,248**	**1,956**	**1,191**
Total average number of employees		**3,280**		**3,147**

Parent company	2017	2016
Men	27	31
Women	17	20
Total	**44**	**51**

Gender distribution senior executives

Group	2017 Men %	2017 Women %	2016 Men %	2016 Women %
Board of Directors	70	30	73	27
Senior executives	87	13	89	11
Total	**73**	**27**	**76**	**24**

Parent company	2017 Men %	2017 Women %	2016 Men %	2016 Women %
Board of Directors	67	33	83	17
CEO	100	–	100	–
Other senior executives	71	29	75	25
Total	**71**	**29**	**80**	**20**

Note 25 Salaries, other remuneration and social security expenses

Group (SEK million)	2017	2016
Wages and salaries	2,488	1,955
Social security expenses	445	391
Pension costs	133	105
Share-based payments	72	28
Social security expenses on share-based payments	32	3
Total	**3,170**	**2,482**

Group (SEK million)	2017	2016
Board of Directors, CEO and other senior executives[1]	173	164
of which variable salary	*46*	*48*

[1] Includes SEK 4.8 (4.6) million Board fees approved by the Annual General Meeting.

Parent company (SEK million)	2017	2016
Board of Directors, CEO and other senior executives	45	47
of which variable salary	*20*	*20*
Other employees	56	55
Total salaries and other remuneration	**101**	**102**
Social security expenses	44	44
of which pension costs	*9*	*9*
of which pension costs CEO	*1*	*1*

Total salaries in the parent company include remuneration to other members of Group Management 3 (4) persons of SEK 19 (21) million, of which variable salary is SEK 9 (8) million.

Remuneration to Group Management 2017

A fee is paid to the Board of Directors in accordance with the decision of the Annual General Meeting. The remuneration to senior executives is paid in accordance with the guidelines approved by the Annual General Meeting 2017.

The objective of the guidelines is to ensure that MTG can attract, motivate and retain senior executives, within the context of MTG's international peers, which primarily consists of Nordic and European media, telecom and global online companies. The aim is to create a remuneration that is market competitive, well balanced and reflects individual performance and responsibility, both short-term and long-term, as well as MTG's overall performance and align the incentives with the interests of the shareholders. The intention is that the Group Management shall have a significant long term shareholding in MTG and that remuneration to the Group Management shall be based on the pay for performance principle.

Remuneration to the Group Management shall consist of fixed salary, short-term variable remuneration paid in cash ("STI"), the

Note 25, continued

possibility to participate in long-term share or share price related incentive programs ("LTI") as well as pension and other customary benefits.

Fixed salary
The fixed salary for the members of the Group Management shall be competitive and based on the individual responsibilities and performance.

Variable remuneration
The STI shall be based on fulfilment of established targets for the MTG Group and in the area of responsibility for each member of the Group Management. The result shall be linked to measurable targets (qualitative, quantitative, general, individual). The targets within each area of responsibility are defined to promote MTG's development in the short and long-term. The maximum payment under the STI shall generally not exceed 100 percent of the senior executives' fixed salary. Payment of part of the STI is conditional upon it being invested in MTG shares and on those shares being held for an agreed period of time. The LTI shall be linked to certain pre-determined financial and/or share or share-price related performance criteria and shall ensure a long-term commitment to the development of the MTG Group and align the Group Managements" incentives with the interests of the shareholders.

Pension and other benefits
The Group Management shall be entitled to pension commitments that are customary, competitive and in line with market conditions in the country in which the member of the Group Management is employed. Pension commitments will be secured through premiums paid to insurance companies. MTG provides other benefits to the Group Management in accordance with local practice. Other benefits can include, for example, a company car and health care. Occasionally, housing allowance could be granted for a defined period.

Notice of termination and severance pay
The maximum notice period of the Group Management members' contract is twelve months during which time salary payment will continue. MTG does not generally allow any additional contractual severance payments to be agreed.

Compensation to Board Members
Board members, elected at General Meetings, may in certain cases receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services shall be paid at market terms and be approved by the Board.

Deviations from the guidelines
The Board may deviate from the above guidelines on a case by case basis. For example, additional variable remuneration or cash payments may be paid in the case of exceptional performance or in special circumstances such as recruitment or retention. In such cases the Board will explain the reason for the deviation at the following Annual General Meeting.

Group Management
Group Management include the Chief Executive Officer, the Chief Financial Officer, Executive Vice Presidents and the Chief Strategy Officer. The Group Management is found on pages 36-37. The following changes to the Group Management were made in 2017; Arnd Benninghof left the Group Management to concentrate on MTGx development on 1 January 2017. Changes in 2016 were the following; Peter Nörrelund joined the executive management team as per 1 April; Gabriel Catrina at the end of March, while Joseph Hundah left the Group Management at the same date. Mathias Hermansson left the team in December 2016. The remuneration therefore reflect these changes from the respective dates in the figures below.

Remuneration and other benefits 2017

(SEK thousand)	Board fee	Base salary	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total
David Chance, Chairman of the Board	1,503						1,503
Joakim Andersson	735						735
Simon Duffy	735						735
Donata Hopfen	630						630
John Lagerling	553						553
Natalie Tydeman	630						630
Jørgen Madsen Lindemann, CEO		10,824	10,824	424	1,076		23,148
Executive managers (7 persons)		24,368	23,037	752	2,195	609	50,961
Total	**4,785**	**35,192**	**33,861**	**1,176**	**3,271**	**609**	**78,894**

The 2017 amounts disclosed for the major part of the Group Management relate to the full year, but part of the year for some of the executives. The numbers include variable salary remuneration incurred to be paid after the year end for the Chief Executive Officer of SEK 9 (8) million. In addition, non-cash share-based incentive programme costs calculated in accordance with IFRS 2 amounted to SEK 16 (2) million for the CEO and SEK 20 (6) million for other members of Group Management. Out of the remuneration to other members of the Group Management SEK 19 (21) million was expensed in the parent company, SEK 29 (34) million was expensed in the subsidiaries.

Remuneration and other benefits 2016

(SEK thousand)	Board fee	Base salary	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total
David Chance, Chairman of the Board	1,425						1,425
Joakim Andersson	650						650
Simon Duffy	700						700
Bart Swanson	575						575
Donata Hopfen	600						600
John Lagerling	600						600
Jørgen Madsen Lindemann, CEO		10,379	10,379	487	1,012		22,256
Executive managers (9 persons)		30,327	24,532	253	2,546		57,658
Total	**4,550**	**40,706**	**34,911**	**740**	**3,557**	**–**	**84,464**

Decision process

The remuneration to the Chief Executive Officer was decided by the Board of Directors. Remuneration to executive management is monitored and reviewed by the Board.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments including social security costs is based on the Group's estimate of shares that will eventually vest and is expensed on a straight-line basis over the vesting period. The fair value expense, excluding social fees, is reported in the income statement as personnel costs with the corresponding increase in equity. For the recurring calculation of social security costs the fair value is revalued quarterly. MTG's share-based plans all have three year vesting periods and payment is depending on fulfilment of certain stipulated goals.

The Annual General Meetings, with the beginning in 2005, have established incentive programmes for senior executives and key personnel.

Long-term incentive programmes (LTIP) 2017

The long-term incentive programmes are performance based and directed towards approximately 85 senior executives and other key employees. The CEO and the senior executives are required to have a certain shareholding in MTG shares (Target Holding) in order for the share awards to vest. The Target Holding to be achieved is for the CEO a shareholding equivalent to the value of 1 year's net base salary at time of grant and, for the senior executives, equivalent to a value of 50% year's net base salary. Based on the participant's annual gross salary and the share price at grant, the CEO is granted share awards equivalent of 125% of the annual gross salary, senior executives are granted share awards equivalent of 100% of the annual gross salary and, for the key employees, 75% of the annual gross salary, depending on the fulfilment of certain stipulated performance conditions. The performance conditions relate to absolute shareholder return (TSR), MTG EBIT level, and MTGx value creation. The target level for the MTG normalised EBIT are set by the Board for each of the calendar years, with the relative weight of each of the three one year periods being one third. The MTGx value creation target includes organic sales growth and normalised EBIT margin which is set annually by the Board. The share rights were granted by the company at the end of May 2017, free of charge, and may be exercised the day following the release of the interim report for Q1 2020. Dividends paid on underlying shares during the vesting period will increase the number of shares in order to treat the shareholders and the participants equally. The programme is calculated to comprise a maximum of 500,000 shares.

Outcome of performance criteria measured over a one-year period

2017 program	Performance level
MTG's operating income (EBIT)	Partly met
MTGx's organic sales growth	Partly met
MTGx's EBIT margin	Not met
esport organic sales growth	Partly met
esport EBIT margin	Not met
Digital Video organic sales growth	Not met
Digital Video EBIT margin	Not met

Long-term incentive programmes (LTIP) 2015 and 2016

The long-term incentive programmes are performance based and directed towards between 85 and 100 senior executives and other key employees. The CEO and the senior executives are required to have a certain shareholding in MTG shares (Target Holding) in order for the share awards to vest. The Target Holding to be achieved is for the CEO a shareholding equivalent to the value of 1 year's net base salary at time of grant and, for the senior executives, equivalent to a value of 50% year's net base salary. Based on the participant's annual gross salary and the share price at grant, the CEO and senior executives are granted share awards equivalent to 75% of the annual gross salary and, for the key employees, 50% of the annual gross salary, depending on the fulfilment of certain stipulated performance conditions. The performance conditions relate to total shareholder return (TSR) compared to a peer group, normalised operating income (excluding associated company income) and absolute TSR. The target levels for normalised operating income (excluding associated company income) are set by the Board for each of the calendar years, with the relative weight of each of the three one year periods being one third. The share rights were granted by the company at the beginning of June each respective year, free of charge, and may be exercised the day following the release of the interim report for Q1 2018 and 2019 respectively. Dividends paid on underlying shares during the vesting period will increase the number of shares in order to treat the shareholders and the participants equally. The programme is calculated to comprise a maximum of 450,000 in the 2016 programme and 495,000 shares in the 2015 programme. The target level in the 2015 pro-

Note 25, continued

gramme for normalised operating income (excluding associated company income) for 2015, 2016 and 2017 was met. The target level in the 2016 programme was met for 2016 and 2017.

Outcome of performance critera measured over a one-year period

2015 program (SEK million)	Target level	Actual level	Performance level
MTG's operating income 2017 [1),2)]	1 264	1 318	Met
MTG's operating income 2016 [2)]	1 391	1 402	Met
MTG's operating income 2015 [2)]	1 414	1 461	Met

1) The original target level of SEK 1,505m has been recalculated for discontinued operations.

2) Refers to normalised operating income (EBIT), excluding associated company income. In accordance with the Plan rules, the Board of Directors has adjusted the calculation of actual level for large transactions and negative exchange rate movements outside of budget.

Long-term incentive programmes (LTIP) 2014

The long-term incentive programmes are performance based and directed towards 140 senior executives and other key employees. The CEO and the senior executives are required to make a personal investment in MTG shares to participate. Investment shares can be shares already held or shares purchased on the market in connection with the notification to participate in the programme, and must be held during the three year vesting period. Based on the participant's annual gross salary and the share price at grant, and, for the CEO and senior executives, the number of invested shares, the participants were granted rights to receive MTG Class B shares free of charge, depending on the fulfilment of certain stipulated goals and the employee category. The goal relates to normalised return on capital employed. The share rights were granted by the company free of charge at the beginning of June, and exercised the day following the release of the interim report for Q1 2017. Dividends paid on underlying shares during the vesting period will increase the number of shares in order to treat the shareholders and the participants equally. The programmes were calculated to comprise a maximum of 345,000 in the 2014 programme. The 2014 programme ended in April 2017. The entry level for return on capital employed was met.

Cost effects of the incentive programmes

The programmes are equity-settled programmes. The initial fair value at grant date of the stock option programmes, is expensed during the vesting period. The cost for the programmes is recognised in equity and as an operating expense. The cost is based on the fair value of the MTG Class B share at grant date and the number of shares expected to vest. The cost recognised for the programmes in 2017 amounts to SEK 72 (28) million excluding social charges. Total provision for the social fees in the balance sheet amounted to SEK 32 (5) million.

There were no share rights exercisable at the end of 2017.

Dilution

If all share rights awarded to senior executives and key employees as at 31 December 2017 were exercised, the outstanding shares of the Company would increase by 943,828 (742,231) Class B shares, and be equivalent to a dilution of 1.4% (1.1) of the issued capital and 0.8% (0.7) of the related voting rights at the end of 2017. In May 2017 61,045 performance shares from the 2014 programme were exercised, and in May 2016 28,892 performance shares from the 2013 programme were exercised.

Distribution of issued share awards:

No of share awards outstanding	CEO	Senior executives	Key personnel	Total
LTIP 2015	28,652	59,440	156,264	244,356
LTIP 2016	32,131	70,913	196,283	299,327
LTIP 2017	45,644	102,129	252,372	400,145
Total outstanding as per 31 December 2017	**106,427**	**232,482**	**604,919**	**943,828**

	2017		2016	
	No of share awards	Weighted exercise price	No of share awards	Weighted exercise price
Share awards outstanding at 1 January	742,231	–	600,157	–
Recalculated due to dividends	3,521	–	1,439	–
Share awards issued during the year	419,190	–	358,956	–
Share awards exercised during the year	-61,045	–	-28,892	–
Share awards forfeited during the year	-160,069	–	-189,429	–
Total outstanding as per 31 December	**943,828**	**–**	**742,231**	**–**

The share awards exercised in 2017 and 2016 were free of charge. The weighted average remaining contractual life is 1.5 (1.6) year.

LTIP programmes/ Financial year	No. of allocated share awards	No. of people	Theoretical value at allocation	Exercise period	Outstanding share awards as per 1 January	Recalculation due to dividend	Forfeited during the year	Exercised during the year	Outstanding share awards as per 31 December
Grant 2014									
2017	282,966	140	137.32	2017	141,373	3,521	83,849	61,045	–
2016	282,966	140	137.32	2017	174,121		32,748		141,373
Grant 2015									
2017	406,554	100	237.56	2018	267,219		22,863		244,356
2016	406,554	100	237.56	2018	311,646		44,427		267,219
Grant 2016									
2017	358,956	85	210.42	2019	333,639		34,312		299,327
2016	358,956	85	210.42	2019			25,317		333,639
Grant 2017									
2017	419,190	85	257.81	2020			19,045		400,145
Total grant									
2017	1,467,666				742,231	3,521	160,069	61,045	**943,828**
2016	1,048,476				485,767	–	102,492	–	**742,231**

Note 26 Audit fees

	Group		Parent company	
(SEK million)	2017	2016	2017	2016
KPMG, audit fees	15	14	2	2
KPMG, audit related fees	2	2	1	–
KPMG, tax related fees	0	1	–	0
KPMG, other services	1	1	–	–
EY, audit fees	1	2	–	–
Deloitte, audit fees	–	0	–	–
Other, audit fees	1	1	–	–
Total	**20**	**20**	**3**	**2**

Note 27 Related party transactions

Related party	
Investment AB Kinnevik (Kinnevik)	Kinnevik holds shares in Modern Times Group MTG AB.

All subsidiaries of Kinnevik are considered as related parties.

The Group has related party relationship with its subsidiaries, associated companies and joint ventures (see note 6 and 12).

All related party transactions are based on market terms and negotiated on arm's-length basis.

Business agreements with related parties

The Group rents office space from Kinnevik.

Transactions with associated companies and joint ventures consists mainly of advertising sales and program rights acquisitions.

Note 27, continued

(SEK million)	Group 2017	Group 2016	Parent company 2017	Parent company 2016
Net sales				
Kinnevik	0	0	–	–
Associated companies and joint ventures	112	74	–	–
Total income	**112**	**74**	–	–
Expenses and procurement				
Kinnevik	3	4	3	3
Associated companies and joint ventures	49	88	0	1
Total operating costs	**52**	**92**	**3**	**4**
Receivables				
Associated companies and joint ventures	13	21	–	–
Total receivables	**13**	**21**	–	–
Payables				
Associated companies and joint ventures	0	2	–	–
Total payables	**0**	**2**	–	**–**

Remuneration of senior executives

No other transactions than reported in note 25 have been made.

Note 28 Acquired operations

Acquired operations 2017

(SEK million)	InnoGames	Kongregate	Other	Total
Cash paid	801	543	91	1,435
Effect of previous participation	545	–	–	545
Additional purchase price and other settlements, non-paid	–	–	-35	-35
Total consideration	**1,346**	**543**	**56**	**1,945**
Recognised amounts of identifiable assets and liabilities				
Tangible assets	27	1	–	27
Intangible assets	727	154	47	928
Accounts receivables and other receivables	181	90	1	272
Financial assets	11	–	16	27
Cash and cash equivalents	213	–	2	215
Deferred tax receivables/liabilities net	-187	-26	-8	-222
Provisions	-1	–	–	-1
Accounts payable and other payables	-285	-59	0	-345
Net identifiable assets and liabilities	**687**	**159**	**56**	**902**
Non-controlling interest	-1,293	–	–	-1,293
Goodwill	1,953	384	–	2,336
Total value	**1,346**	**543**	**56**	**1,945**

Cash consideration

(SEK million)	InnoGames	Kongregate	Other	Total
Cash paid	801	543	91	1,435
Cash and cash equivalents in the acquired companies	-213	–	-2	-215
Cash consideration	588	543	89	1,220
Transaction costs rendered				30
Total cash consideration				**1,250**

Acquisition of InnoGames GmbH
The Group increased its share ownership in InnoGames from 21% to 51% on 30 April 2017 for SEK 801 million. InnoGames is a global online games developer and publisher, and is reported within the segment "MTGx". Call options in stages up until 2023 for the remaining shares are included in the agreement. Transaction costs was SEK 30 million. Goodwill amounted to SEK 1,953 million in total, and comprise among other development capabilities and competence in the work force. Other intangible assets amounted to SEK 440 million. The goodwill will not be tax deductible. The accounts receivables are judged to be paid in accordance with the recognised amounts above. The purchase price allocations were finalised at the end of 2017.

Acquisition of Kongregate Inc.
The Group acquired 100% of the shares in Kongregate, Inc. on 21 July 2017 for a consideration of SEK 463 million. Kongregate is a game publisher and developer, and is reported within the segment "MTGx". Goodwill amounted to SEK 339 million and other intangible assets to SEK 93 million net of deferred tax liabilities. Goodwill comprise the ability to leverage and improve the existing business through inhouse developers as well as the network of external developers. Transaction costs amounted to SEK 14 million. The purchase price allocations are in progress as the work is ongoing. Kongregate acquired two American companies in November 2017 – Synapse Games, Inc. and Chinzilla, Inc.. The companies were immediately merged with Kongregate, Inc.. The acquisition gave rise to a goodwill of SEK 43 million and other intangible assets of SEK 37 million. The consideration was SEK 80 million. The purchase price allocation was ended at the end of 2017.

Other
The Group acquired 100% of the shares in Matador Film AB on 31 August 2017 for a cash consideration of SEK 17 million and a deferred consideration of SEK 17 million. The acquisition gave rise to an intangible asset of SEK 30 million net of tax. The company is included in the segment "MTG Studios". The Group acquired 15% of the shares in Splay AB in December 2017 for a cash consideration of SEK 35 million by utilizing a option, and thereby owns 96% of the shares. The Group acquired 5% of the shares in Turtle UK by exercising options to buy further shares, and made earn-out payments to former owners in SmartAd, Nice Drama and Turtle HongKong. The total considerations for these transactions were in total SEK 14 million. The Group acquired shares in JTV Digital, a Trace company for SEK 6 million. The Group also invested in Bitcraft for SEK 16 million. Bitcraft is reported as a financial asset.

Contributions during 2017 from the acquisition date

(SEK million)	MTGx companies	Other	Total
Net sales	1,234	6	1,240
Net income	77	2	79

Contributions from acquisitions if the acquisition had occurred 1 January 2017

(SEK million)	MTGx companies	Other	Total
Net sales	1,975	8	1,983
Net income	115	5	120

The Group's total sales if the acquisition had occurred on 1 January would have been SEK 18,280 million and net income would have been SEK 1,401 million for continuing operations.

Note 28, continued

Acquired operations 2016

(SEK million)	MTGx companies	Other	Total
Cash paid	27	8	35
Effect of previous participation	–	2	2
Additional purchase price and other settlements, non-paid	66	–	66
Total consideration	**92**	**10**	**103**
Recognised amounts of identifiable assets and liabilities			
Tangible assets	7	0	7
Intangible assets	–	0	0
Inventories	–	0	0
Accounts receivables and other receivables	10	0	10
Cash and cash equivalents	7	4	11
Borrowings	0	–	0
Deferred tax receivables/liabilities	0	0	0
Provisions	-2	–	-2
Accounts payable and other payables	-26	-1	-27
Net identifiable assets and liabilities	**-4**	**3**	**-1**
MTG's share	-4	1	-4
Goodwill	97	10	106
Total consideration	**92**	**10**	**103**

Cash consideration

(SEK million)	MTGx companies	Other	Total
Cash paid	27	8	35
Cash and cash equivalents in the acquired companies	-7	-4	-11
Borrowings in the acquired companies	0	–	0
Total cash consideration	**20**	**4**	**24**

Acquisition of subsidiaries
The Group acquired 51% of the shares in the companies VIM Media & Events Pty Ltd, Australia and Kuoda Ltd, UK, both within the ESL business for SEK 16 million. Illuminata Media Ltd, Ireland was acquired and incorporated with Zoomin.TV at a purchase price SEK 11 million. The acquired companies are reported within the segment "MTGx". Further, the Group acquired minorities in the two Bulgarian companies Grabo and Trendo at SEK 8 million. The companies are reported within the segment "International Entertainment". Total transactions costs for all acquisitions amounted to SEK 1 million, which are recognised in operating income. Total goodwill amounted to SEK 106 million in total, and comprise potential trademark extension and various buyer specific synergies. The goodwill will not be tax deductible. The accounts receivables are judged to be paid in accordance with the recognised amounts above. The purchase price allocations were finalised during 2016.

The agreements to acquire VIM Media & Events Pty Ltd and Kuoda Ltd includes an option to acquire the remaining 49% of the shares from 2016 up until 2020. The purchase price is calculated at the present fair value of the company based on the option clauses in the agreement, and, as a consequence, 100% of the two companies are consolidated without non-controlling interest.

Acquisitions of associated companies
InnoGames GmbH, Germany
The Group acquired 20.6% of the shares in InnoGames GmbH on 1 December 2016. InnoGames is a global online games developer and publisher, creating strategy and role-playing games. It operates a 100% free-to-play model with revenues coming from in-game purchasing. InnoGames is reported within the segment 'MTGx'. The cash consideration was EUR 54 million. The agreement include a further acquisition of 14.6% of the shares planned for Q1 2017 at the same underlying value subject to specific terms, and call options for additional 65% of the shares in stages up until 2023. The acquired company is reported as an associated company as the shareholding gives a significant influence.

Engage Sports Media Ltd, UK
The Group acquired 22% of the shares in Engage Sports Media Ltd (ESM) on 25 May 2016. ESM enables premium sports rights owners to digitalise and monetise their content for global audiences, by making it available online, on demand and on mobile. ESM is reported within the segment 'MTGx'. The cash consideration was GBP 2 million. The agreement include a further additional acquisition of 1.8% of the company at the same underlying value in 2017 subject to specific terms, and also include call

options for additional 65% of the shares in stages up until 2020. The acquired company is judged to be an associated company as the shareholding gives a significant influence. The purchase price allocation is preliminary as the work is ongoing.

Other

The Group acquired shares in Turtle Spain by exercising options to buy further shares. The purchase price was in total SEK 4 million. The Group also made earn-out payments of in total SEK 4 million to former owners of Nice Drama, Against All Odds and Paprika.

Contributions during 2016 from the acquisition date

(SEK million)	MTGx companies	Other	Total
Net sales	50	23	73
Net income	4	5	9

Contributions from acquisitions if the acquisition had occurred 1 January 2016

(SEK million)	MTGx companies	Other	Total
Net sales	68	23	91
Net income	2	6	8

The Group's total sales if the acquisition had occurred on 1 January would have been SEK 15,017 million and net income would have been SEK 743 million for continuing operations.

Note 29 Divested operations, assets held for sale and discontinued operations

Discontinued operations

Discontinued operations refer to companies that have been disposed of or have been classified as held for sale. Result and cash flow from discontinued operations are presented separate from result and cash flow from continued operations. Stated figures for 2017 and 2016 are based on the same group of companies, except for CTC Media share of earnings as CTC was divested during 2016. The companies reported as discontinued operations were divested in 2017 with the exception of the Tanzanian operations.

Group (SEK million)	2017 Prima, the Baltics and Africa (excl. Trace)	2016 Prima, the Baltics and Africa (excl. Trace)
Net sales	1,207	2,320
Operating expenses	-1,105	-2,060
Financial expenses	-2	38
Net income before tax	**99**	**298**
Tax	-28	-79
Net income	**71**	**219**
Net gain on sales of operations	677	–
Total net income	**748**	**219**
CTC Media share of earnings	–	-1,072
Total net income from discontinued operations	**748**	**-853**
Non-current assets	2	1,276
Accounts receivables and other receivables	8	1,104
Cash and cash equivalents	6	179
Assets held for sale	**16**	**2,559**
Interest-bearing liabilities	–	-55
Accounts payables and other liabilities	-18	-691
Liabilities related to assets held for sales	**-18**	**-746**
Net assets	**-1**	**1,813**

Divested operations

2017

In connection with the announcement of the sale of FTV Prima in Czech Republic and the Free-TV, Pay-TV and Radio companies in Estonia, Lithuania and Latvia, it was decided to recognise Prima, the Baltic companies and the African holdings as assets held for sale and discontinued operations respectively as the companies represents separate geographical areas. The sale of Prima was finalised on April 24 2017 and the sale of the Baltic companies on October 26 2017. The sale of the companies in Tanzania is not yet finalised as approval from the authorities has not yet been received.

Note 29, continued

2016

The Group sold at the end of 2016 its Free-TV operation in Ghana and two production companies in Ghana and Nigeria respectively. Viasat Ukraine was sold in June 2016. Further, the final payment for the sale of the Russian Pay-TV companies was received in October 2016.

MTG owned 38% of the outstanding shares in CTC Media, Inc., Russia up until May 2016. CTC Media sold its business operations to UTV-Management LLC, and MTG recognised its interest in CTC Media 'Discontinued operation' from 2015.

The fair value of MTG's holding as per 31 December 2015 was calculated at SEK 1,081 million and reflected the anticipated return of the value to the shareholders of in total USD 255 million. On 23 May 2016, the payment was made to the shareholders and MTG received in total USD 123 million. Net income in 2016 for CTC Media totalled SEK -1,072 million and reflected the change in fair value arising from the accumulated translation differences recognised through other comprehensive income. Further information can be found CTC Media's website www.ctcmedia.ru.

The table below presents divested operations with comparable for 2016 related to Prima, Baltics, Ghana, Nigeria and Ukraine.

Group (SEK million)	2017	2016
Net sales	1,202	2,328
Operating expenses	-1,085	-2,041
Financial expenses	-2	-18
Net income before tax	**114**	**269**
Tax	-28	-66
Net income	**87**	**202**
Net gain on sales of operations	677	–
Total net income	**763**	**202**
Non-current assets	1,246	1,284
Accounts receivables and other receivables	1,023	1,138
Cash and cash equivalents	230	186
Interest-bearing liabilities	-220	-398
Accounts liabilities and other liabilities	-605	-722
Net assets	**1,674**	**1,488**
Cash and cash equivalents	-230	-6
Sales price received	2,013	18
Net cash inflow	**1,784**	**12**
Deferred payment from 2015	–	89
Total net cash inflow	**1,784**	**102**

Note 30 Events after the reporting period

MTG sells stake in Trace media group

On 19 January MTG signed an agreement to sell its 75% shareholding in Trace Partners S.A. to TPG Growth. The transaction values 100% of Trace at an enterprise value of EUR 40 million (approximately SEK 392 million). MTG has fully consolidated Trace. Closing is subject to local regulatory approval.

Nordic Entertainment, MTG Studios and TDC Group

On 1 February MTG signed a definitive agreement with TDC Group to combine its Nordic Entertainment and MTG Studios businesses (together "MTG Nordics") with TDC Group. TDC Group's consideration comprised issuance of new shares and cash payment for MTG Nordics, and the newly issued TDC Group shares was to be distributed to MTG shareholders immediately upon completion of the combination. On 12 February MTG was informed by TDC Group that its Board of Directors withdraw its recommendation due to an offer of the shares for the whole TDC Group. The agreement governing the combination has not been terminated at this stage pending completion of the offer.

MTG sells stake in Nova Broadcasting Group

On 19 February MTG signed an agreement to sell its 95% shareholding in Nova Broadcasting Group Jsc. to PPF Group. The transaction values 100% of Nova at an enterprise value of EUR 185 million (approximately SEK 1,830 million). MTG has fully consolidated Nova. Closing is subject to local regulatory approval.

23 March 2018 – MTG to split in two and distribute shares in Nordic Entertainment Group to shareholders

MTG announced that its Board of Directors has decided to initiate a process to split MTG into two companies – Modern Times Group MTG AB and Nordic Entertainment Group – by distributing all the shares in Nordic Entertainment Group (comprising the Group's Nordic Entertainment, MTG Studios and Splay Networks operations) to MTG's shareholders, and listing these shares on Nasdaq Stockholm. The Board intends to propose the distribution and listing of the shares at an Extraordinary General Meeting of its shareholders during the second half of 2018. The Board's final proposal will be subject to the previously announced combination of MTG's Nordic Entertainment and MTG Studios businesses with TDC Group not being completed.

Note 31 Proposed appropriations of earnings

The following funds are at the disposal of the shareholders as at 31 December 2017 (SEK):

(SEK)	
Premium reserve	267,111,846
Retained earnings	4,884,921,627
Net income 2017	208,686,643
Total	**5,360,720,116**

The Board of Directors propose that an increased annual cash dividend of SEK 12.50 (12.00) per share be paid to shareholders for the twelve months ended 31 December 2017, and that the remaining amount be carried forward. Of the amount carried forward, SEK 267 million is to be carried forward to the premium reserve. The total proposed dividend payment for 2017 would amount to a maximum of SEK 837,200,000 based on the maximum potential number of outstanding shares as at the record date, and represent 95% (93) of the Group's net income, continued operations excluding items affecting comparability for the full year 2017.

Signatures

The Board of Directors and the Chief Executive Officer confirm that the annual accounts have been prepared in accordance with accepted accounting standards in Sweden, and that the consolidated accounts have been prepared in accordance with the international accounting standards in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards. The annual accounts and the consolidated accounts give a true and fair view of the Group's and Parent Company's financial position and results of operations.

The Board of Directors' Report for the Group and the Parent Company gives a true and fair view of the Group's and the Parent Company's operations, position and results, and describes significant risks and uncertainty factors that the Parent Company and Group companies face.

The annual accounts and the consolidated statements were approved by the Board of Directors and the Chief Executive Officer on 23 March 2018. The consolidated income statement and statement of financial position, and the income statement and balance sheet of the Parent Company, will be presented for adoption by the Annual General Meeting on 22 May 2018.

Stockholm 23 March 2018

Joakim Andersson
Non-Executive Director

David Chance
Chairman of the Board

John Lagerling
Non-Executive Director

Simon Duffy
Non-Executive Director

Donata Hopfen
Non-Executive Director

Natalie Tydeman
Non-Executive Director

Jørgen Madsen Lindemann
President and Chief Executive Officer

Our Audit report was submitted 27 March 2018
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

Audit report

To the general meeting of the shareholders of Modern Times Group MTG AB (publ.), corp. id 556309-9158.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Modern Times Group MTG AB for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 18-83 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Recoverability of goodwill and intangible assets

See note 2 and 10 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of goodwill and other intangible assets such as trademarks and customer relations as at 31 December 2017 amount to SEK 8.9 billion, which is approximately 46 % of total assets.

Goodwill and intangible assets with indefinite lives are required to be tested annually for impairment. Other intangible assets are tested where there is an impairment trigger.

The impairment tests are complex and include significant judgements. The recoverable value of these assets is based on forecasting and discounting future cash flows using assumptions, such as discount rates, revenue forecasts and long-term growth, which are inherently judgemental and which could be influenced by management bias.

Response in the audit

We obtained and considered the groups impairment tests to assure compliance with the methodology prescribed by IFRS. A goodwill impairment of SEK 593 million has been recorded related to Zoomin.TV in the reporting segment MTGx. Further impairments of SEK 93 million related to capitalized development costs have been made in Zoomin.TV and InnoGames.

We have further evaluated the future cash flow forecasts and their underlying assumptions including long-time growth rates as well as the discount rates used. We have had reviews with management including specific focus on the assumptions used in the impairment test for Zoomin.TV. We have also evaluated historical accuracy of forecasts.

As part of our work we have involved our valuation specialists to assist in our assessment of the impairment models.

We considered management's sensitivity analysis showing the impact of a reasonable change in assumptions to determine whether impairment charged was required.

We have further ensured that the financial statement disclosures meet the requirements in the accounting standards.

Valuation of put and call liabilities and contingent considerations

See note 2 and 21 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

In connection with certain business combinations options have been issued where the seller of the company has the right to sell further shares to the group and the group has the right to purchase further shares. The acquired company is fully consolidated without non-controlling interest. Instead a liability is recorded measured at present value of the exercise price of the options which is dependent on the future performance of the acquired business.

Certain other business combinations include contingent considerations, which are measured at fair value.

At 31 December 2017 the carrying value of these put liabilites and contingent considerations are SEK 1 billion in the balance sheet.

The value is calculated based on the terms in agreements including estimates of future revenue growth and operating margin discounted to present value. The calculation of the value therefore include significant judgements which could be influenced by management bias.

Response in the audit

We obtained and considered the group's valuation of the put and call liabililties and contingent considerations and evaluated the forecasts for revenue growth and operating margin as well as the discount rates used. Major changes in estimated fair value are recorded related to Zoomin.TV and Splay.

As part of our work we have involved our valuation specialists to assist in our assessment of the calculated values.

We have further ensured that the financial statement disclosures fulfill met requirements in the accounting standards.

Program rights amortisation

See note 2 and 3 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

Payments for program rights are reported either as inventory or as prepaid expenses mainly depending on the start of the license period. Program rights inventory, where the license period has started, amount to SEK 2.1 billion as per 31 December 2017. Determining the timing and amount of program right expense recognized in the period requires judgement in selection the appropriate recognition profile and ensuring that this profile achieves the objective of recognizing inventory expense in line with the way that it is consumed by the group.

There is a risk that the recognition profile selected by management does not correctly recognize the expense in line with consumption.

Response in the audit

We examined the method for expensing program rights inventory, taking into account the differing genres of programs, any significant changes in viewing patterns during the year and other assessments made by the group. In addition sample testing on contract were performed to evaluate acqusition cost and amortisation periods.

We assessed whether the carrying value of the balances are considered recoverable by analyzing the assets on a portfolio basis and comparing the carrying value at 31 December 2017 against current year revenue and forecasts to determine if any indicators of impairment exist.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-17 and 88-92. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Modern Times Group MTG AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Modern Times Group MTG AB by the general meeting of the shareholders on the 13 May 2014. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1997.

Stockholm 27 March 2018

KPMG AB

Joakim Thilstedt
Authorized Public Accountant

Five year summary

Group (SEK million)	2017	2016[1]	2015[2]	2014	2013[3]
Continuing operations					
Net sales	17,537	14,999	16,218	15,746	14,073
Change in reported net sales %	*16.9*	*7.0*	*3.0*	*11.9*	*6.0*
Organic growth %	*7.7*	*5.8*	*0.7*	*3.8*	*4.7*
Acquisitions/divestments %	*8.3*	*1.4*	*1.9*	*6.9*	*3.0*
Changes in FX rates %	*1.0*	*-0.2*	*0.4*	*1.2*	*-1.7*
Operating income before items affecting comparability	1,264	1,060	1,268	1,290	1,300
Operating margin before items affecting comparability %	*7.2*	*7.1*	*7.8*	*8.1*	*9.3*
Items affecting comparability	-340	–	-512	-155	-147
Total operating income	923	1,060	756	1,135	1,152
Total operating margin %	*5.3*	*7.1*	*4.7*	*7.2*	*8.2*
Net income	612	744	533	816	743
Discontinued operations					
Net income	748	-853	-282	357	425
Total operations					
Total net income	1,360	-109	251	1,172	1,168
Cash flow, continuing operations					
Cash flow from operations	1,311	674	1,051	1,040	1,348
Change in working capital	-725	-204	-555	-143	-130
Net cash flow from operations	586	470	497	897	1,218
Investments in non-current intangible and tangible assets	-330	-308	-293	-217	-319
Net investments of business combinations and divestments	763	-504	-1,182	7	-905
Net debt					
Total borrowings	3,223	2,993	2,567	1,058	1,874
Total cash and interest-bearing assets	-1,405	-682	-443	-695	-1,103
Net debt related to assets held for sale	-6	-126	–	–	–
Net debt	1,812	2,186	2,124	363	772
Net debt to EBITDA ratio	1.1	1.7	1.5	0.3	0.5
Key ratios					
Return on equity adjusted for items affecting comparability %	30	-2	12	24	25
Return on capital employed adjusted for items affecting comparability %[4]	18	22	26	30	35
Equity/assets ratio %	34	28	29	41	38
Interest coverage ratio adjusted for items affecting comparability[4]	19	11	23	15	10
Per share data					
Shares outstanding	66,725,249	66,663,816	66,635,969	66,630,189	66,622,711
Weighted average number of shares before dilution	66,706,398	66,655,996	66,634,180	66,627,771	66,619,668
Weighted average number of shares after dilution[5]	67,142,319	66,826,825	66,769,596	66,709,088	66,697,519
Total basic earnings per share for continuing operations (SEK)[4]	8.19	10.99	7.45	11.75	7.60
Total basic earnings per share (SEK)	18.73	-3.19	3.22	17.10	16.39
Proposed ordinary dividend/Cash dividend per share (SEK)	12.50	12.00	11.50	11.00	10.50
Market price of Class B shares at close of last trading day	344.80	270.00	216.70	248.80	333.20

[1] The Czech, Baltic and African operations (excluding Trace) were reclassified as 'Assets held for sale' and 'Discontinued operations', and the statements for 2016 has been restated accordingly. 2015 and earlier are not restated.

[2] Associated company CTC Media, Inc., was reclassified in 2015 as 'Assets held for sale' and 'Discontinued operations' respectively, the income statement has been restated accordingly.

[3] Figures restated for change in accounting principles related to joint ventures (Raduga) for 2013 only.

[4] Figures restated for continuing operations excluding discontinued associated company (CTC Media). The value of ROCE has been restated due to updated definition of Capital Employed.

[5] The Group has Long Term Incentive Plans that may be exercised into 943,828 new class B shares.

Definitions

Capital employed
Capital employed is the sum of current and non-current assets less current and non-current liabilities, provisions and liabilities at fair value. All items are non-interest-bearing.

Cash flow from operations
Cash flow from operations comprises operating cash flow before financial items and tax payments, taking into account other financial cash flow.

Earnings per share
Earnings per share is expressed as net income attributable to equity holders of the parent divided by the average number of shares.

EBITDA
EBITDA is read Earnings Before Interest, Tax, Depreciation and Amortisation.

Equity/assets ratio
The equity/assets ratio corresponds to shareholders' equity including non-controlling interest, expressed as a percentage of total assets.

Interest coverage ratio
Interest coverage ratio is calculated as operating income before items affecting comparability divided by financial costs.

Items affecting comparability (IAC)
Items affecting comparability refers to material items and events related to changes in the Group's structure or lines of business, which are relevant for understanding the Group's development on a like-for-like basis.

Net debt
Net debt is the sum of short- and long-term interest-bearing liabilities less total cash and interest-bearing assets.

Operating income
Operating income comprise results before interest and tax. A synonym for operating income is EBIT (Earnings Before Interest and Tax).

Operating margin %
Operating profit as a percentage of net sales.

Organic growth
Change in net sales compared to the same period of the previous year excluding acquisitions and divestments and adjusted for currency effects.

Return on capital employed (ROCE) %
Return on capital employed is calculated as operating income before items affecting comparability as a percentage of average capital employed.

Return on equity (ROE) %
Return on equity is expressed as net income before items affecting comparability as a percentage of average shareholders' equity.

Alternative Performance Measures

The purpose of APMs is to facilitate the analysis of business performance and industry trends that cannot be directly derived from financial statements. MTG is using the following APMs:

- Operating income and margin before items affecting comparability (IAC)
- Change in net sales from organic growth, acquisitions/divestments and changes in FX rates
- Net debt and net debt/EBITDA
- Capital employed and return on capital employed (ROCE)
- Return on equity (ROE)
- Interest coverage ratio

Reconciliation of sales growth

Since the Group generates the majority of its sales in currencies other than in the reporting currency (i.e. SEK, Swedish Krona) and currency rates have proven to be rather volatile, and due to the fact that the Group has historically made several acquisitions and divestments, the company's sales trends and performance are analysed as changes in organic sales growth. This presents the increase or decrease in the overall SEK net sales on a comparable basis, allowing separate discussions of the impact of acquisitions/divestments and exchange rates. The following tables present changes in organic sales growth as reconciled to the change in the total reported net sales.

Sales growth

Group (SEK million)	2017	%	2016	%
Nordic Entertainment				
Organic growth	733	6.6	654	6.2
Acquisitions/divestments	–	–	–	–
Changes in FX rates	90	0.8	-2	0.0
Reported growth	**822**	**7.4**	**651**	**6.2**
International Entertainment				
Organic growth	75	6.9	143	15.4
Acquisitions/divestments	-10	-1.0	-650	-47.2
Changes in FX rates	21	1.9	12	0.7
Reported growth	**86**	**7.8**	**-496**	**-31.0**
MTG Studios				
Organic growth	48	2.7	39	2.2
Acquisitions/divestments	6	0.3	–	–
Changes in FX rates	2	0.1	-42	-2.4
Reported growth	**56**	**3.1**	**-3**	**-0.1**
MTGx				
Organic growth	455	37.0	–	–
Acquisitions/divestments	1,249	101.7	–	–
Changes in FX rates	32	2.6	–	–
Change in presentation of prize money	-98	-17.8	–	–
Reported growth	**1,638**	**123.5**	**876**	**194.3**
Total				
Organic growth	1,151	7.7	768	5.8
Acquisitions/divestments	1,244	8.3	230	1.4
Changes in FX rates	143	1.0	-20	-0.2
Reported growth	**2,538**	**16.9**	**979**	**7.0**

Reconciliation of operating income before IAC

Operating income before items affecting comparability refers to operating income after the reversal of material items and events related to changes in the Group's structure or lines of business, which are relevant for understanding the Group's development on a like-for-like basis. This measure is used by management to follow and analyse the underlying result and to offer more comparable figures between periods.

Operating income before and after IAC

Group (SEK million)	2017	2016
Operating income	923	1,060
Items affecting comparability	340	–
Operating income before items affecting comparability	**1,264**	**1,060**

Items affecting comparability refer to the loss related to the yearly impairment test for Zoomin.TV (Q4), revaluation of liabilities related to options to acquire shares in Zoomin.TV and Splay AB and for minority interests within the Nice and Turtle groups and finally the impact of previously capitalized transaction costs when InnoGames became a fully consolidated subsidiary rather than an associated company in May (Q2). 2016 did not include any items affecting comparability.

Reconciliation of net debt and net debt/EBTIDA before IAC ratio

Please refer to the net debt reconciliation in note 21. Net debt refers to the sum of short- and long-term interest-bearing liabilities less total cash and interest-bearing assets. Net debt is used by management to track the debt evolvement of the Group and to analyse the leverage and refinancing needs of the Group. The net debt to EBITDA provides a KPI for net debt in relation to cash profits generated by the operations, i.e. an indication of a company´s ability to pay its debt. This measure is commonly used by financial institutions to rate credit worthiness.

Net debt/EBITDA (before IAC) ratio

Group (SEK million)	2017	2016
Operating income before IAC	1,264	1,060
Depreciation and amortisation	321	207
EBITDA last 12 months[1]	**1,584**	**1,268**
Net debt	1,812	2,186
Net debt/EBITDA ratio 12 months trailing	**1.1**	**1.7**

[1] EBITDA relates to continuing operaitons.

Reconciliation of return on capital employed (ROCE)

Return on capital employed is a performance measure whereby operating income before items affecting comparability is put in relation to the capital employed within the operations. Operating income before items affecting comparability is the main profit level for which operations are responsible and comprise results before interest and tax. Capital employed is the sum of current and non-current assets less current and non-current liabilities, provisions and liabilities at fair value. All items are non-interest-bearing. Capital employed thus equals the sum of equity and net debt.

Group (SEK million)	2017	2016
Operating income before IAC	1,264	1,060
Inventory	2,183	1,680
Other current receivables	6,027	5,354
Intangible assets	8,884	6,246
Tangible assets	272	255
Shares and participations	85	616
Other financial assets	413	308
Total non-current non-interest-bearing liabilities	-2,052	-2,150
Total current non-interest-bearing liabilities	-7,244	-6,660
Current liabilities at fair value	-176	-134
Capital Employed	**8,392**	**5,514**
Average Capital Employed (5 quarters)	**7,200**	**4,851**
ROCE %	**18%**	**22%**

Reconciliation of return on equity (ROE)

Return on equity is a performance measure whereby net income before items affecting comparability is put in relation to total equity (including non-controlling interest). ROE measures the return generated on shareholders' capital invested in the company.

Group (SEK million)	2017	2016
Net income	1,360	-109
Items affecting comparability net of tax	328	–
Net income before items affecting comparability	**1,687**	**-109**
Shareholders' equity	5,179	4,809
Non-controlling interest	1,393	207
Total shareholders' equity	**6,572**	**5,016**
Average shareholders' equity (5 quarters)	**5,612**	**4,676**
ROE %	**30%**	**-2%**

Reconciliation of interest coverage ratio

Interest coverage ratio is a performance measure whereby operating income before items affecting comparability is put in relation to the financial costs. The interest coverage ratio measures a company's ability to pay interest on outstanding debt.

Group (SEK million)	2017	2016
Operating income before items affecting comparability	1,264	1,060
Total financial costs	-68	-96
Interest coverage ratio	**19**	**11**

Financial calendar

Q1 Results Announcement
Monday, 23 April 2018

Annual General Meeting 2018
Tuesday, 22 May 2018
Hotel Rival, Stockholm
Documentation and further details of when and how to give notice to attend will be published in advance on www.mtg.com.

Q2 Results Announcement
Wednesday, 18 July 2018

Q3 Results Announcement
Tuesday, 23 October 2018